UNITED STATES DISTRICT COURT
DISTRICT OF KANSAS

NATIONAL CREDIT UNION ADMINISTRATION BOARD, as Liquidating Agent of U.S. Central Federal Credit Union and of Western Corporate Federal Credit Union, Plaintiff, vs. WACHOVIA CAPITAL MARKETS, LLC n/k/a WELLS FARGO SECURITIES, LLC, Defendant.	Case No. 11-cv-2649 JAR/KGG JURY TRIAL DEMANDED

COMPLAINT

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Plaintiff, the National Credit Union Administration Board ("NCUA Board"), brings this action in its capacity as Liquidating Agent of U.S. Central Federal Credit Union ("U.S. Central") and Western Corporate Federal Credit Union ("WesCorp") against Wachovia Capital Markets, LLC (n/k/a Wells Fargo Securities, LLC) ("Wachovia"), as underwriter and seller of certain residential mortgage-backed securities ("RMBS") purchased by U.S. Central and WesCorp, and alleges as follows:

I. NATURE OF THE ACTION

1. This action arises out of the sale of RMBS to U.S. Central and WesCorp where Wachovia acted as underwriter and/or seller of the RMBS.

2. Virtually all of the RMBS sold to U.S. Central and WesCorp were rated as triple-A (the same rating as U.S. Treasury bonds) at the time of issuance.

3. Wachovia underwrote and sold the RMBS pursuant to registration statements, prospectuses, and/or prospectus supplements (collectively, the "Offering Documents"). The Offering Documents contained untrue statements of material fact or omitted to state material facts in violation of Sections 11 and 12(a)(2) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77k, 77*l*(a)(2) ("Section 11" and "Section 12(a)(2)," respectively), the California Corporate Securities Law of 1968 ("California Corporate Securities Law"), Cal. Corp. Code §§ 25401, 25501 and the Kansas Uniform Securities Act, Kan. Stat. Ann. § 17-12a509 ("Kansas Uniform Securities Act").

4. The NCUA Board expressly disclaims and disavows any allegation in this Complaint that could be construed as alleging fraud.

5. The Offering Documents described, among other things, the mortgage underwriting standards of the originators (the "Originators") who made the mortgages that were pooled and served as the collateral for the RMBS purchased by U.S. Central and WesCorp.

6. The Offering Documents represented that the Originators adhered to the underwriting guidelines set out in the Offering Documents for the mortgages in the pools collateralizing the RMBS. In fact, the Originators had systematically abandoned the stated underwriting guidelines in the Offering Documents. Because the mortgages in the pools collateralizing the RMBS were largely underwritten without adherence to the underwriting standards in the Offering Documents, the RMBS were significantly riskier than represented in the Offering Documents. Indeed, a material percentage of the borrowers whose mortgages comprised the RMBS were all but certain to become delinquent or default shortly after origination. As a result, the RMBS were destined from inception to perform poorly.

7. These untrue statements and omissions were material because the value of RMBS is largely a function of the cash flow from the principal and interest payments on the mortgage loans collateralizing the RMBS. Thus, the performance of the RMBS is tied to the borrower's ability to repay the loan.

8. U.S. Central and WesCorp purchased the RMBS listed in Table 1 (*infra*) through initial offerings directly from Wachovia by means of prospectuses or oral communications. Thus, Wachovia is liable for material untrue statements and omissions of fact under Section 11, Section 12(a)(2), the California Corporate Securities Law and the Kansas Uniform Securities Act for the RMBS listed in Table 1.

Table 1
(Securities Purchased on the Initial Offering)

CUSIP[1]	ISSUING ENTITY	BUYER	TRADE DATE	PRICE PAID
92978GAB5	Wachovia Mortgage Loan Trust, Series 2006-ALT1	U.S. Central	30-Nov-06	$43,995,000
92978GAC3	Wachovia Mortgage Loan Trust, Series 2006-ALT1	WesCorp	30-Nov-06	$44,376,000

9. U.S. Central purchased each RMBS listed in Table 2 (*infra*) pursuant to and traceable to a registration statement containing untrue statements of material fact or that omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading. Wachovia was an underwriter for each of the securities listed in Table 2 and is therefore liable under Section 11.

Table 2
(Securities Subject to Section 11 Claims Only)

CUSIP	ISSUING ENTITY	BUYER	TRADE DATE	PRICE PAID
66988YAE2	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	22-Sept-06	$15,169,000
66988YAF9	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	22-Sept-06	$63,050,000

[1] "CUSIP" stands for "Committee on Uniform Securities Identification Procedures." A CUSIP number is used to identify most securities, including certificates of RMBS. *See* CUSIP Number, http://www.sec.gov/answers/cusip.htm.

CUSIP	ISSUING ENTITY	BUYER	TRADE DATE	PRICE PAID
66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	22-Sept-06	$34,300,000

10. The RMBS U.S. Central and WesCorp purchased suffered a significant drop in market value. U.S. Central and WesCorp have suffered significant losses from those RMBS purchased despite the NCUA Board's mitigation efforts.

II. PARTIES AND RELEVANT NON-PARTIES

11. The National Credit Union Administration ("NCUA") is an independent agency of the Executive Branch of the United States Government that, among other things, charters and regulates federal credit unions and operates and manages the National Credit Union Share Insurance Fund ("NCUSIF") and the Temporary Corporate Credit Union Stabilization Fund ("TCCUSF"). The TCCUSF was created in 2009 to allow the NCUA to borrow funds from the United States Department of the Treasury ("Treasury Department") for the purposes of stabilizing corporate credit unions under conservatorship or liquidation, or corporate credit unions threatened with conservatorship or liquidation. The NCUA must repay all monies borrowed from the Treasury Department for the purposes of the TCCUSF by 2021. The NCUSIF insures the deposits of account holders in all federal credit unions and the majority of state-chartered credit unions. The NCUA has regulatory authority over state-chartered credit unions that have their deposits insured by the NCUSIF. The NCUA is under the management of the NCUA Board. *See* Federal Credit Union Act, 12 U.S.C. §§ 1751, 1752a(a) ("FCU Act").

12. U.S. Central was a federally chartered corporate credit union with its offices and principal place of business in Lenexa, Kansas. As a corporate credit union, U.S. Central provided investment and financial services to other corporate credit unions.

13. WesCorp was a federally chartered corporate credit union with its offices and principal place of business in San Dimas, California. As a corporate credit union, WesCorp provided investment and financial services to other credit unions.

14. The NCUA Board placed U.S. Central and WesCorp into conservatorship on March 20, 2009, pursuant to the FCU Act, 12 U.S.C. § 1751 *et seq*. On October 1, 2010, the NCUA Board placed U.S. Central and WesCorp into involuntary liquidation pursuant to 12 U.S.C. §§ 1766(a), 1787(a)(1)(A) and appointed itself Liquidating Agent.

15. Pursuant to 12 U.S.C. § 1787(b)(2)(A), the NCUA Board as Liquidating Agent has succeeded to all rights, titles, powers, and privileges of U.S. Central and WesCorp and of any member, account holder, officer or director of U.S. Central and WesCorp, with respect to U.S. Central and WesCorp and their assets, including the right to bring the claims asserted by them in this action. As Liquidating Agent, the NCUA Board has all the powers of the members, directors, officers, and committees of U.S. Central and WesCorp, and succeeds to all rights, titles, powers, and privileges of U.S. Central and WesCorp, *see* 12 U.S.C. § 1787(b)(2)(A). The NCUA Board may also sue on U.S. Central's and WesCorp's behalf. *See* 12 U.S.C. §§ 1766(b)(3)(A), 1787(b)(2), 1789(a)(2).

16. Prior to being placed into conservatorship and involuntary liquidation, U.S. Central and WesCorp were the two largest corporate credit unions in the United States.

17. Any recoveries from this legal action will reduce the total losses resulting from the failure of U.S. Central and WesCorp. Losses from U.S. Central and WesCorp's failures must

be paid from the NCUSIF or the TCCUSF. Expenditures from these funds must be repaid through assessments against all federally insured credit unions. Because of the expenditures resulting from U.S. Central and WesCorp's failures, federally insured credit unions will experience larger assessments, thereby reducing federally insured credit unions' net worth. Reductions in net worth can adversely affect the dividends that individual members of credit unions receive for the savings on deposit at their credit union. Reductions in net worth can also make loans for home mortgages and automobile purchases more expensive and difficult to obtain. Any recoveries from this action will help to reduce the amount of any future assessments on federally insured credit unions throughout the system, reducing the negative impact on federally insured credit unions' net worth. Recoveries from this action will benefit credit unions and their individual members by increasing net worth, resulting in more efficient and lower-cost lending practices.

18. Defendant Wachovia is a U.S. Securities and Exchange Commission ("SEC") registered broker-dealer and was an underwriter of all the RMBS that are the subject of this Complaint and that are listed in Tables 1 and 2 (*supra*). Wachovia is a North Carolina corporation with its principal place of business in North Carolina.

III. JURISDICTION AND VENUE

19. This Court has subject matter jurisdiction pursuant to: (a) 12 U.S.C. § 1789(a)(2), which provides that "[a]ll suits of a civil nature at common law or in equity to which the [NCUA Board] shall be a party shall be deemed to arise under the laws of the United States, and the United States district courts shall have original jurisdiction thereof, without regard to the amount in controversy"; and (b) 28 U.S.C. § 1345, which provides that "the district courts shall have

original jurisdiction of all civil actions, suits or proceedings commenced by the United States, or by any agency or officer thereof expressly authorized to sue by Act of Congress."

20. Venue is proper in this District under Section 22 of the Securities Act, 15 U.S.C. § 77v(a), because some of the transactions at issue occurred in Lenexa, Kansas, the headquarters of U.S. Central. This Court has personal jurisdiction over the Defendant because it offered/sold the RMBS at issue in this Complaint to U.S. Central in this District; prepared/disseminated the Offering Documents containing untrue statements or omissions of material fact as alleged herein to U.S. Central in this District; and/or are residents of/conduct business in this District.

IV. MORTGAGE ORIGINATION AND THE PROCESS OF SECURITIZATION

21. RMBS are asset-backed securities. A pool or pools of residential mortgages are the assets that back or collateralize the RMBS certificates purchased by investors.

22. Because residential mortgages are the assets collateralizing RMBS, the origination of the mortgages commences the process that leads to the creation of RMBS. Originators decide whether to loan potential borrowers money to purchase residential real estate through a process called mortgage underwriting. The originator applies its underwriting standards or guidelines to determine whether a particular borrower is qualified to receive a mortgage for a particular property. The underwriting guidelines consist of a variety of metrics, including: the borrower's debt, income, savings, credit history and credit score; whether the property will be owner-occupied; and the amount of the loan compared to the value of the property at issue (the "loan-to-value" or "LTV" ratio), among other things. Underwriting guidelines are designed to ensure that: (1) the borrower has the means to repay the loan, (2) the borrower will likely repay the loan, and (3) the loan is secured by sufficient collateral in the event of default.

23. Historically, originators made mortgage loans to borrowers and held the loans on their own books for the duration of the loan. Originators profited as they collected monthly principal and interest payments directly from the borrower. Originators also retained the risk that the borrower would default on the loan.

24. This changed in the 1970s when the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae"), and the Federal Home Loan Mortgage Corporation ("Freddie Mac") began purchasing "conforming loans" (loans underwritten in accordance with Fannie Mae and Freddie Mac underwriting guidelines) from originators and "securitizing" them for resale to investors as RMBS.

25. More recently, originators, usually working with investment banks, began securitizing "non-conforming loans." Non-conforming loans (loans not written in compliance with Fannie Mae or Freddie Mac guidelines) are also known as "nonprime" or "private label" loans and include "Alt-A" and "subprime" loans. Despite the non-conforming nature of the underlying mortgages, the securitizers of such RMBS were able to obtain triple-A credit ratings by using "credit enhancement" (explained *infra*) when they securitized the non-conforming loans.

26. On information and belief, all of the loans collateralizing the RMBS at issue in this Complaint are non-conforming mortgage loans.

27. The issuance of RMBS collateralized by non-conforming loans peaked in 2006. The securitization process shifted the originators' focus from ensuring the ability of borrowers to repay their mortgages, to ensuring that the originator could process (and obtain fees from) an ever-larger loan volume for distribution as RMBS. This practice is known as "originate-to-distribute" ("OTD").

28. Securitization begins with a "sponsor" who purchases loans in bulk from one or more originators. The sponsor transfers title of the loans to an entity called the "depositor."

29. The depositor transfers the loans to a trust called the "issuing entity."

30. The issuing entity issues "notes" and/or "certificates," representing an ownership interest in the cash flow from the mortgage pool underlying the securities (*i.e.*, the principal and interest generated as borrowers make monthly payments on the mortgages in the pool).

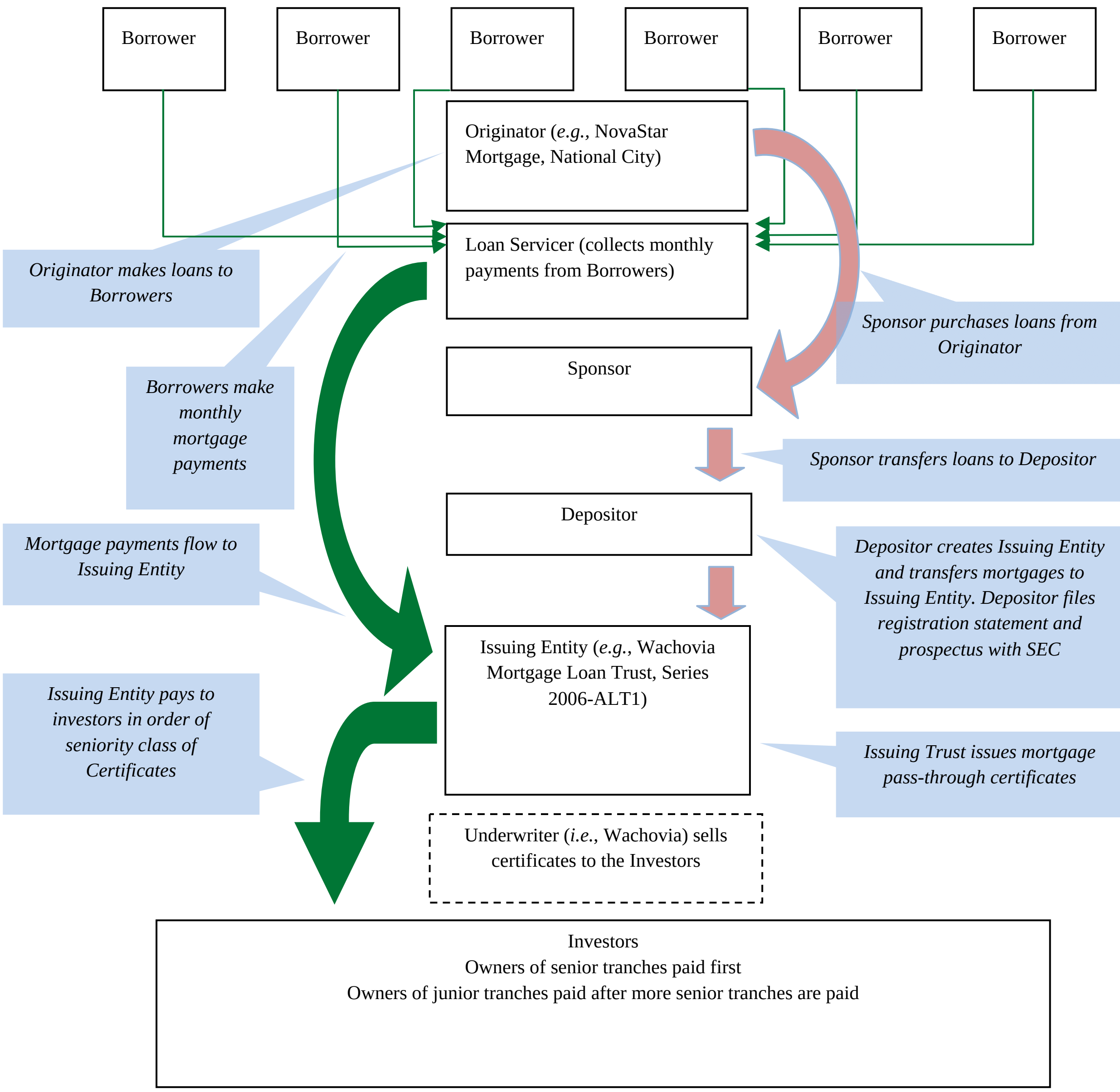
31. The depositor files required documents (such as registration statements and prospectuses) with the SEC so that the certificates can be offered to the public.

32. One or more "underwriters"—like Wachovia—then sell the notes or certificates to investors.

33. A loan "servicer" collects payments from borrowers on individual mortgages as part of a pool of mortgages, and the issuing entity allocates and distributes the income stream generated from the mortgage loan payments to the RMBS investors.

34. Figure 1 (*infra*) depicts a typical securitization process.

Figure 1
(Illustration of the Securitization Process)



35. Because securitization, as a practical matter, shifts the risk of default on the mortgage loans from the originator of the loan to the RMBS investor, the originator's adherence to mortgage underwriting guidelines as represented in the offering documents with respect to the underlying mortgage loans is critical to the investors' ability to evaluate the expected

performance of the RMBS.

V. RMBS CREDIT RATINGS AND CREDIT ENHANCEMENT

36. RMBS offerings are generally divided into slices or "tranches," each of which represents a different level of risk. RMBS certificates denote the particular tranches of the security purchased by the investor.

37. The credit rating for an RMBS reflects an assessment of the creditworthiness of that RMBS and indicates the level of risk associated with that RMBS. Standard & Poor's ("S&P") and Moody's Investors Service, Inc. ("Moody's") are the credit ratings agencies that assigned credit ratings to the RMBS in this case.

38. The credit rating agencies use letter-grade rating systems as shown in Table 3 (*infra*).

Table 3
(Credit Rating System)

Moody's	S&P	Definitions	Grade Type
Aaa	AAA	**Prime (Maximum Safety)**	**INVESTMENT GRADE**
Aa1 Aa2 Aa3	AA+ AA AA-	**High Grade, High Quality**	
A1 A2 A3	A+ A A-	**Upper Medium Grade**	
Baa1 Baa2 Baa3	BBB+ BBB BBB-	**Medium Grade**	
Ba2 Ba3	BB BB-	**Non-Investment Grade, or Speculative**	**SPECULATIVE GRADE**
B1 B2 B3	B+ B B-	**Highly Speculative, or Substantial Risk**	
Caa2 Caa3	CCC+	**In Poor Standing**	
Ca	CCC CCC-	**Extremely Speculative**	
C	-	**May be in Default**	
-	D	**Default**	

39. Moody's purportedly awards the coveted "Aaa" rating to structured finance products that are "of the highest quality, with minimal credit risk." Moody's Investors Services, Inc., *Moody's Rating Symbols & Definitions* at 6 (August 2003), *available at*: http://www.rbcpa.com/Moody's_ratings_and_definitions.pdf. Likewise, S&P rates a product "AAA" when the "obligor's capacity to meet its financial commitment on the obligation is extremely strong." Standard & Poor's, *Ratings Definitions*, *available at*: http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245303711350.

40. In fact, RMBS could not be sold unless they received one of the highest "investment grade" ratings on most tranches from one or more credit rating agencies, because the primary market for RMBS is institutional investors, such as U.S. Central and WesCorp, which are generally limited to buying only securities with the highest credit ratings. *See, e.g.*, NCUA Credit Risk Management Rule, 12 C.F.R. § 704.6(d)(2) (2010) (prohibiting corporate credit unions from investing in securities rated below AA-); *but see, e.g.*, Removing References to Credit Ratings in Regulations; Proposing Alternatives to the Use of Credit Ratings, 76 Fed. Reg. 11,164 (proposed Mar. 1, 2011) (to be codified at 12 C.F.R. pts. 703, 704, 709, and 742) (the NCUA's proposed rule eliminating the use of credit ratings for guidance in investment decisions by credit unions).

41. While the pool of mortgages underlying the RMBS may not have been sufficient to warrant a triple-A credit rating, various forms of "credit enhancement" were used to obtain a triple-A rating on the higher tranches of RMBS.

42. One form of credit enhancement is "structural subordination." The tranches, and their risk characteristics relative to each other, are often analogized to a waterfall. Investors in the higher or "senior" tranches are the first to be paid as income is generated when borrowers

make their monthly payments. After investors in the most senior tranche are paid, investors in the next subordinate or "junior" tranche are paid, and so on down to the most subordinate or lowest tranche.

43. In the event mortgages in the pool default, the resulting loss is absorbed by the subordinate tranches first.

44. Accordingly, senior tranches are deemed less risky than subordinate tranches and therefore receive higher credit ratings.

45. Another form of credit enhancement is overcollateralization. Overcollateralization is the inclusion of a higher dollar amount of mortgages in the pool than the par value of the security. The spread between the value of the pool and the par value of the security acts as a cushion in the event of a shortfall in expected cash flow.

46. Other forms of credit enhancement include "excess spread," monoline insurance, obtaining a letter of credit, and "cross-collateralization." "Excess spread" involves increasing the interest rate paid to the purchasers of the RMBS relative to the interest rate received on the cash flow from the underlying mortgages. Monoline insurance, also known as "wrapping" the deal, involves purchasing insurance to cover losses from any defaults. Finally, some RMBS are "cross-collateralized," *i.e.*, when a tranche in an RMBS experiences rapid prepayments or disproportionately high realized losses, principal and interest collected from another tranche is applied to pay principal or interest, or both, to the senior certificates in the loan group experiencing rapid prepayment or disproportionate losses.

VI. U.S. CENTRAL'S AND WESCORP'S PURCHASES

47. U.S. Central and WesCorp purchased only the highest-rated tranches of RMBS. Most were rated triple-A at the time of issuance. These securities have since been downgraded

below investment grade just a few years after they were sold (*see infra* Table 4). However, none were downgraded below investment grade more than one year prior to the date U.S. Central and WesCorp were placed into conservatorship.

Table 4
(Credit Ratings for U.S. Central's and WesCorp's RMBS Purchases)

CUSIP	ISSUER NAME	BUYER	Original Rating S&P	Original Rating MOODY'S	Downgrade Below Investment Grade S&P	Downgrade Below Investment Grade MOODY'S	Recent Rating S&P	Recent Rating MOODY'S
66988YAF9	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	AA+	Aa1	CCC 9/2/2008	Caa2 10/30/2008	D 3/18/2011	C 3/13/2009
66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	AA	Aa2	CCC 9/2/2008	Ba1 4/23/2008	D 10/22/2010	C 10/30/2008
66988YAE2	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	AAA	Aaa	B 9/2/2008	Ba1 10/30/2008	CCC 8/4/2009	Ca 3/13/2009
92978GAB5	Wachovia Mortgage Loan Trust, Series 2006-ALT1	U.S. Central	AAA	Aaa	B 10/27/2008	Caa2 2/19/2009	CCC 2/16/2010	Caa3 11/5/2010
92978GAC3	Wachovia Mortgage Loan Trust, Series 2006-ALT1	WesCorp	AAA	Aaa	B 10/27/2008	Ba3 8/20/2008	CCC 2/16/2010	Caa3 11/5/2010

48. At the time of purchase, U.S. Central and WesCorp were not aware of the untrue statements or omissions of material facts in the Offering Documents of the RMBS. If U.S. Central and WesCorp had known about the Originators' pervasive disregard of underwriting standards—contrary to the representations in the Offering Documents—U.S. Central and WesCorp would not have purchased the certificates.

49. The securities' substantial loss of market value has injured U.S. Central, WesCorp

and the NCUA Board.

VII. THE ORIGINATORS SYSTEMATICALLY DISREGARDED THE UNDERWRITING GUIDELINES STATED IN THE OFFERING DOCUMENTS

50. The performance and value of RMBS are largely contingent upon borrowers repaying their mortgages. The loan underwriting guidelines ensure that the borrower has the means to repay the mortgage and that the RMBS is secured by sufficient collateral in the event of reasonably anticipated defaults on underlying mortgage loans.

51. With respect to RMBS collateralized by loans written by originators who systematically disregarded their stated underwriting standards, the following pattern is present:

a. a surge in borrower delinquencies and defaults on the mortgages in the pools (*see infra* Section VII.A and Table 5);

b. actual losses to the underlying mortgage pools within the first 12 months after the offerings exceeded expected losses (*see infra* Section VII.B and Figure 2); and

c. a high percentage of the underlying mortgage loans were originated for distribution, as explained below (*see infra* Table 6 and accompanying allegations).

52. These factors support a finding that the Originators failed to originate the mortgages in accordance with the underwriting standards stated in the Offering Documents.

53. This conclusion is further corroborated by reports that the Originators who contributed mortgage loans to the RMBS at issue in this Complaint abandoned the underwriting standards described in the RMBS Offering Documents (*see infra* Section VII.D).

A. The Surge in Mortgage Delinquency and Defaults Shortly After the Offerings and the High OTD Practices of the Originators Demonstrate Systematic Disregard of Underwriting Standards

54. Residential mortgages are generally considered delinquent if no payment has been received for more than 30 days after payment is due. Residential mortgages where no payment has been received for more than 90 days (or three payment cycles) are generally considered to be in default.

55. The surge of delinquencies and defaults following the offerings evidence the systematic flaws in the Originators' underwriting process (*see infra* Table 5).

56. The Offering Documents reported zero or near zero delinquencies and defaults at the time of the offerings (*see infra* Table 5).

57. The pools of mortgages collateralizing the RMBS experienced delinquency and default rates up to 6.95% within the first three months, up to 15.75% at six months, and up to 29.64% at one year (*see infra* Table 5).

58. As of October 2011, approximately half (41.92% on average) of the mortgage collateral across all of the RMBS that U.S. Central and WesCorp purchased was in delinquency, bankruptcy, foreclosure, or was real estate owned ("REO"), which means that a bank or lending institution owns the property after a failed sale at a foreclosure auction (*see infra* Table 5).

59. Table 5 (*infra*) reflects the delinquency, foreclosure, bankruptcy, and REO rates on the RMBS as to which claims are asserted in this Complaint. The data presented in the last five columns are from the trustee reports (dates and page references as indicated in the parentheticals). The shadowed rows reflect the group of mortgages in the pool underlying the specific tranches purchased by U.S. Central and WesCorp; however, some trustee reports include only the aggregate data. For RMBS with multiple groups, aggregate information on all the

groups is included because the tranches are cross-collateralized.

Table 5
(Delinquency and Default Rates for U.S. Central's and WesCorp's RMBS Purchases)

CUSIP	OFFERING	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	NovaStar Mortgage Funding Trust, Series 2006-5 Aggregate (P.S. dated September 22, 2006)	.95% of the mortgage loans were 30 or more days delinquent (S-23)	2.31% (Oct., p.14)	4.90% (Dec., p.14)	10.38% (Mar., p.14)	22.59% (Sept., p.14)	45.90% (Oct. 2011, p.15)
66988YAF9 66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5 Group 1 *Classes M-1 and M-2 are in Groups 1 and 2 (S-98)	.95% of the mortgage loans were 30 or more days delinquent (S-23)	1.75% (Oct., p.15)	3.58% (Dec., p.15)	6.93% (Mar., p.15)	17.98% (Sept., p.15)	42.35% (Oct. 2011, p.20)
66988YAE2 66988YAF9 66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5 Group 2 *Class A-2D in Group 2 (S-1) *Classes M-1 and M-2 are in Groups 1 and 2 (S-98)	.95% of the mortgage loans were 30 or more days delinquent (S-23)	3.19% (Oct., p.16)	6.95% (Dec., p.16)	15.75% (Mar., p.16)	29.64% (Sept., p.16)	52.70% (Oct. 2011, p.26)
92978GAB5 92978GAC3	Wachovia Mortgage Loan Trust, Series 2006-ALT1 (P.S. dated December 19, 2006)	Zero. (S-32)	.94% (Jan., p.14)	2.13% (Mar., p.14)	4.14% (June, p.14)	10.84% (Dec., p.14)	30.93% (Oct. 2011, p.12)

60. This early spike in delinquencies and defaults, which occurred almost immediately after these RMBS were purchased by U.S. Central and WesCorp, was later discovered to be indicative of the Originators' systematic disregard of their stated underwriting guidelines.

61. The phenomenon of borrower default shortly after origination of the loans is known as "Early Payment Default." Early Payment Default evidences borrower misrepresentations and other misinformation in the origination process, resulting from systematic

failure of the Originators to apply the underwriting guidelines described in the Offering Documents.

62. A November 2008 Federal Reserve Board study attributed the rise in defaults, in part, to "[d]eteriorating lending standards" and posits that "the surge in early payment defaults suggests that underwriting . . . deteriorated on dimensions that were less readily apparent to investors." Christopher J. Mayer *et al.*, *The Rise in Mortgage Defaults* at 15-16 (Fed. Reserve Bd. Fin. & Econ. Discussion Series, Paper No. 2008-59).

63. In January 2011, the Financial Stability Oversight Council ("FSOC"), chaired by United States Treasury Secretary Timothy Geithner, issued a report analyzing the effects of risk retention requirements in mortgage lending on the broader economy. *See* FIN. STABILITY OVERSIGHT COUNCIL, MACROECONOMIC EFFECTS OF RISK RETENTION REQUIREMENTS (2011) ("FSOC Risk Retention Report"). The FSOC Risk Retention Report focused on stabilizing the mortgage lending industry through larger risk retention requirements in the industry that can "incent better lending decisions" and "help to mitigate some of the pro-cyclical effects securitization may have on the economy." *Id*. at 2.

64. The FSOC Risk Retention Report observed that the securitization process often incentivizes poor underwriting by shifting the risk of default from the originators to the investors, while obscuring critical information concerning the actual nature of the risk. The FSOC Risk Retention Report stated:

> The securitization process involves multiple parties with varying incentives and information, thereby breaking down the traditional direct relationship between borrower and lender. The party setting underwriting standards and making lending decisions (the originator) and the party making structuring decisions (the securitizer) are often exposed to minimal or no credit risk. By contrast, the party that is most exposed to credit risk (the investor) often has less influence over underwriting standards and may have less information about the borrower. As a result, originators and securitizers that do not retain risk can, at least in the short

> run, maximize their own returns by lowering loan underwriting standards in ways that investors may have difficulty detecting. The originate-to-distribute model, as it was conducted, exacerbated this weakness by compensating originators and securitizers based on volume, rather than on quality.

Id. at 3.

65. Indeed, originators that wrote a high percentage of their loans for distribution were more likely to disregard underwriting standards, resulting in poorly performing mortgages, in contrast to originators that originated and then held most of their loans.

66. High OTD originators profited from mortgage origination fees without bearing the risks of borrower default or insufficient collateral in the event of default. Divorced from these risks, high OTD originators were incentivized to push loan quantity over quality.

67. Table 6 (*infra*) shows the percentage of loans originated for distribution relative to all the loans made by the Originators for the years 2005, 2006 and 2007, for those Originators in this Complaint with high OTD percentages. The data was obtained from the Home Mortgage Disclosure Act database.

Table 6
(Originator "Originate-to-Distribute" Percentages)

Originator	OTD % 2005	OTD% 2006	OTD % 2007
Accredited Home Lenders, Inc.	100	100	100
NovaStar Mortgage, Inc.	89.3	80.0	98.5
Wachovia Mortgage Corp.	82.6	74.1	69.6

B. The Surge in Actual Versus Expected Cumulative Losses is Evidence of the Originators' Systematic Disregard of Underwriting Standards

68. The actual losses to the mortgage pools underlying the RMBS U.S. Central and WesCorp purchased have exceeded expected losses so quickly and by so wide a margin (*see*

infra Figure 2) that a significant portion of the mortgages could not have been underwritten as represented in the Offering Documents.

69. "Loss" is different than and should be distinguished from default and delinquency rates. Loss either attempts to predict ("expected loss") or reflects ("actual loss") losses to the collateral pool by reason of borrower default, less any amounts recovered by the mortgage holder on a defaulted loan by sale of the subject property after foreclosure (which amounts may be less than 100% of the balance of the outstanding mortgage if the property is sold for less than the balance). Loss depends on default frequency (the number of loans foreclosed) and loss severity (the amount of principal not recovered upon sale after foreclosure).

70. While the short term price of a security may be influenced by broader market or liquidity forces, actual versus expected loss is a gauge of the health or the performance of an RMBS based on factors particular to that security.

71. Expected loss is a statistical estimate of the total cumulative shortfall in principal payments on a mortgage pool over its thirty year life, expressed as a percentage of the original principal balance of the pool. Expected loss is based on historical data for similar mortgage pools.

72. The amount of expected loss is used to determine the amount of credit enhancement needed to achieve a desired credit rating. Each credit rating has a "rating factor," which can be expressed in multiples of the amount of credit enhancement over expected loss (in equation form: CE/EL = RF). Thus, the rating factor expresses how many times the expected loss is covered by credit enhancement. A triple-A rated security would have a rating factor of "5," so would require credit enhancement of five times the amount of the expected loss. A "double-A rating" would have a rating factor of "4", and thus would require credit enhancement

equaling four times the expected loss. A "single-A" rating would have a rating factor of "3" and would require credit enhancement of three times expected loss. A "Baa" rating would require credit enhancement of 2—1.5 times expected loss, and a "Ba" rating or lower requires some amount of credit enhancement less than 1.5 times expected loss.

73. Again credit enhancement over expected loss equals the rating factor. So, by way of example, if cumulative expected losses on an asset pool are calculated to be $1 million, and the desired rating is triple-A (rating factor 5), the amount of credit enhancement provided will have to equal $5 million, or $1 million multiplied by five.

74. Accordingly, if the analysis of expected loss is flawed, so too is the calculation of the amount of credit enhancement. For instance, on a triple-A rated security, if actual cumulative losses exceed five times expected losses, the credit enhancement will be insufficient and the principal of the senior tranche will be impaired. This is because, again, the amount of credit enhancement was determined based on the assumed amount of expected loss.

75. The following hypothetical illustrates how, working backwards, expected loss can be inferred in an already-issued offering. Assume there is a $100 million offering backed by $100 million of assets, with a triple-A rated senior tranche with a principal balance of $75 million. This means the non-senior (subordinate) tranches, in aggregate, have a principal balance of $25 million. The $25 million amount of the non-senior or subordinated tranches in this hypothetical offering serves as the credit enhancement for the senior tranche. Therefore, on our hypothetical $100 million offering, the expected loss would be $5 million, or the amount of the credit enhancement on the triple-A rated senior tranche—$25 million—divided by the rating factor for triple-A rated securities--5. The following equation illustrates: $25,000,000/5 = $5,000,000.

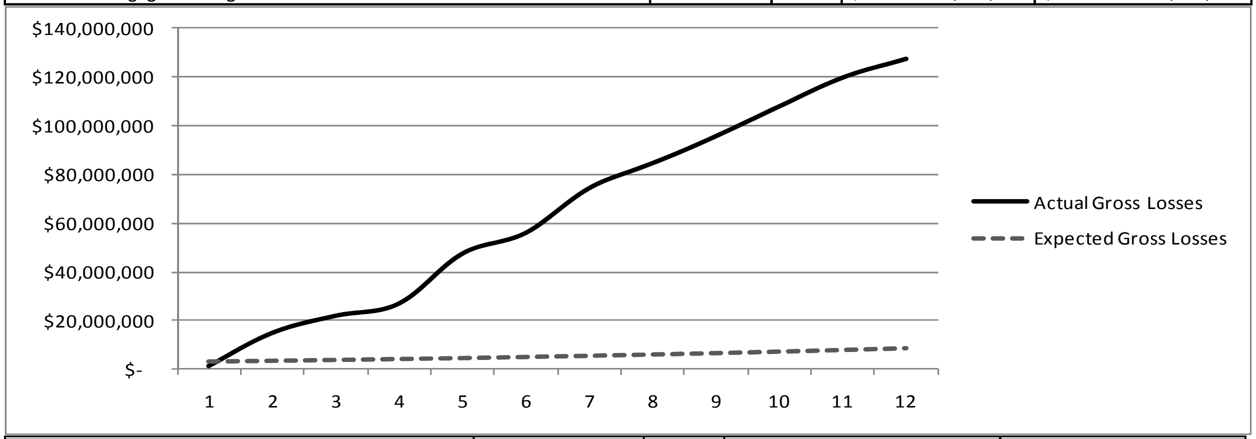
76. "Actual losses" are the economic losses that were, in fact, suffered by the mortgage pools due to defaults and resulting foreclosures and any related inability of the mortgage holder or servicer to recoup the full principal amount of the mortgages. The actual loss data in Figure 2 (*infra*) is from ABSNET, a provider of asset-backed securities related data.

77. The path of cumulative losses can be plotted on a line graph representing loss (either expected or actual) from origination to maturity, as shown in Figure 2 (*infra*).

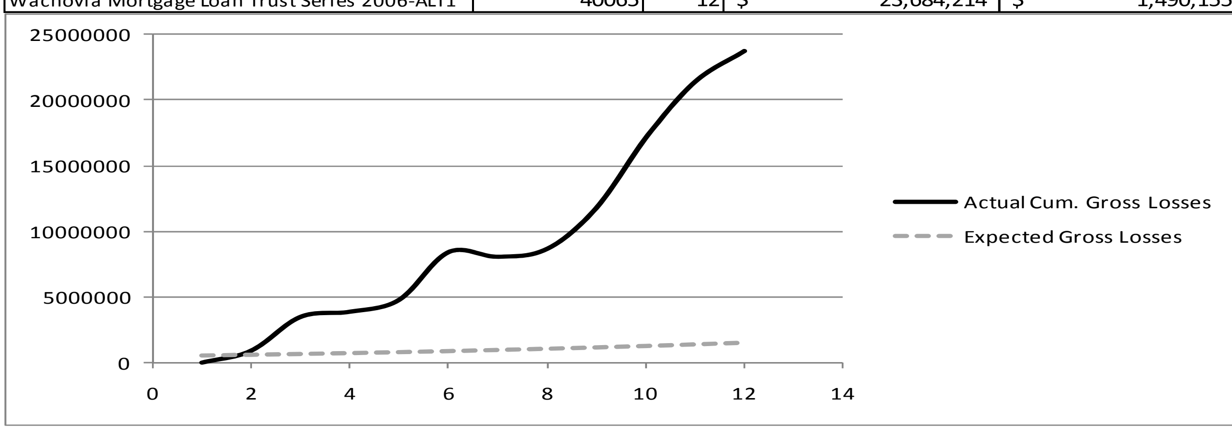
78. For the RMBS U.S. Central and WesCorp purchased, Figure 2 (*infra*) depicts a series of graphs illustrating the losses the RMBS actually experienced in the first 12 months after issuance in comparison to the losses the RMBS were expected to experience during the same time period. As the graphs show, the actual losses (the solid line) far exceeded the expected losses (the dotted line) for the period analyzed.

Figure 2
(Illustration of Expected Losses v. Actual Losses for U.S. Central's and WesCorp's RMBS Purchases)

Deal Name	ABSNet Deal I	Month	Actual Gross Losses	Expected Gross Losses
Novastar Mortgage Funding Trust 2006-5	39379	1	$ 1,435,238	$ 3,388,172
Novastar Mortgage Funding Trust 2006-5	39379	2	$ 15,009,169	$ 3,700,731
Novastar Mortgage Funding Trust 2006-5	39379	3	$ 22,047,992	$ 4,041,468
Novastar Mortgage Funding Trust 2006-5	39379	4	$ 27,040,822	$ 4,412,797
Novastar Mortgage Funding Trust 2006-5	39379	5	$ 47,552,372	$ 4,817,316
Novastar Mortgage Funding Trust 2006-5	39379	6	$ 56,075,866	$ 5,257,814
Novastar Mortgage Funding Trust 2006-5	39379	7	$ 74,438,517	$ 5,737,281
Novastar Mortgage Funding Trust 2006-5	39379	8	$ 84,681,723	$ 6,258,914
Novastar Mortgage Funding Trust 2006-5	39379	9	$ 95,762,561	$ 6,826,128
Novastar Mortgage Funding Trust 2006-5	39379	10	$ 108,010,395	$ 7,442,559
Novastar Mortgage Funding Trust 2006-5	39379	11	$ 119,855,905	$ 8,112,065
Novastar Mortgage Funding Trust 2006-5	39379	12	$ 127,523,639	$ 8,838,732



Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	1	$ -	$ 571,225
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	2	$ 907,000	$ 623,920
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	3	$ 3,477,778	$ 681,366
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	4	$ 3,865,958	$ 743,970
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	5	$ 4,775,290	$ 812,169
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	6	$ 8,398,870	$ 886,435
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	7	$ 8,047,724	$ 967,270
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	8	$ 8,645,036	$ 1,055,214
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	9	$ 11,762,701	$ 1,150,843
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	10	$ 17,071,099	$ 1,254,769
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	11	$ 21,346,144	$ 1,367,643
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	12	$ 23,684,214	$ 1,490,155



79. As clearly shown in Figure 2 (*supra*), actual losses spiked almost immediately after issuance of the RMBS. Borrowers defaulted on the underlying mortgages soon after loan origination, rapidly eliminating the RMBS' credit enhancement. The discrepancy also reflects a high level of loss severity, or that the amounts recovered on the loan at foreclosure were far less than the loan balance. For example, in the NovaStar Mortgage Funding Trust, Series 2006-5 offering, actual losses at month 12 exceeded $127.5 million, or more than 14 times the expected losses of approximately $8.8 million (*see supra* Figure 2).

80. This immediate increase in actual losses—at a rate far greater than expected losses and at a high loss severity rate —is strong evidence that the Originators systematically disregarded the underwriting standards in the Offering Documents.

81. Because credit enhancement is designed to ensure that high investment grade rated RMBS perform to that standard, the evidence that credit enhancement failed (*i.e.*, actual losses swiftly surged past expected losses shortly after the offering) substantiates that a critical number of mortgages in the pool were not written in accordance with the underwriting guidelines stated in the Offering Documents.

C. The Collapse of the Certificates' Credit Ratings is Evidence of Systematic Disregard of Underwriting Guidelines

82. The RMBS U.S. Central and WesCorp purchased were rated triple-A or double-A at issuance.

83. Moody's and S&P have since downgraded the RMBS U.S. Central and WesCorp purchased to well below investment grade (*see supra* Table 4). However, none were downgraded below investment grade more than one year prior to the date U.S. Central and WesCorp were placed into conservatorship.

84. A rating downgrade is material. The total collapse in the credit ratings of the RMBS U.S. Central and WesCorp purchased, typically from triple-A to non-investment speculative grade, is evidence of the Originators' systematic disregard of underwriting guidelines, amplifying that these securities were impaired from the outset.

D. Revelations Subsequent to the Offerings Show That the Originators Systematically Disregarded Underwriting Standards

85. Public disclosures subsequent to the issuance of the RMBS reinforce the allegation that the Originators systematically abandoned their stated underwriting guidelines.

1. The Systematic Disregard of Underwriting Standards Was Pervasive as Revealed After the Collapse

86. Mortgage originators experienced unprecedented success during the mortgage boom. Yet, their success was illusory. As the loans they originated began to significantly underperform, the demand for their products subsided. It became evident that originators had systematically disregarded their underwriting standards.

87. The Office of the Comptroller of the Currency (the "OCC"), an office within the Treasury Department, published a report in November 2008 listing the "Worst Ten" metropolitan areas with the highest rates of foreclosures and the "Worst Ten" originators with the largest numbers of foreclosures in those areas. In this report, the OCC emphasized the importance of adherence to underwriting standards in mortgage loan origination:

> The quality of the underwriting process—that is, determining through analysis of the borrower and market conditions that a borrower is highly likely to be able to repay the loan as promised—is a major determinant of subsequent loan performance. The quality of underwriting varies across lenders, a factor that is evident through comparisons of rates of delinquency, foreclosure, or other loan performance measures across loan originators.

88. Recently government reports and investigations and newspaper reports have

uncovered the extent of the pervasive abandonment of underwriting standards. The Permanent Subcommittee on Investigations in the United States Senate ("PSI") recently released its report detailing the causes of the financial crisis. Using Washington Mutual Bank as a case study, the PSI concluded through its investigation:

> Washington Mutual was far from the only lender that sold poor quality mortgages and mortgage backed securities that undermined U.S. financial markets. The Subcommittee investigation indicates that Washington Mutual was emblematic of a host of financial institutions that knowingly originated, sold, and securitized billions of dollars in high risk, poor quality home loans. These lenders were not the victims of the financial crisis; the high risk loans they issued became the fuel that ignited the financial crisis.

STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 112TH CONG., WALL STREET AND THE FINANCIAL CRISIS: ANATOMY OF A FINANCIAL COLLAPSE 50 (Subcomm. Print 2011).

89. Indeed, the Financial Crisis Inquiry Commission ("FCIC") issued its final report in January 2011 that detailed, among other things, the collapse of mortgage underwriting standards. *See* FIN. CRISIS INQUIRY COMM'N, FINAL REPORT OF THE NATIONAL COMMISSION ON THE CAUSES OF THE FINANCIAL AND ECONOMIC CRISIS IN THE UNITED STATES (2011) ("FCIC Report").

90. Concluding that there had been a "systemic breakdown in accountability and ethics" in the mortgage industry, the FCIC found:

> [I]t was the collapse of the housing bubble—fueled by low interest rates, easy and available credit, scant regulation, and toxic mortgages—that was the spark that ignited a string of events, which led to a full-blown crises in the fall of 2008. Trillions of dollars in risky mortgages had become embedded throughout the financial system, as mortgage-related securities were packaged, repackaged, and sold to investors around the world.

Id. at xvi.

91. During the housing boom, mortgage lenders focused on quantity rather than quality, originating loans for borrowers who had no realistic capacity to repay the loan. The

FCIC Report found "that the percentage of borrowers who defaulted on their mortgages within just a matter of months after taking a loan nearly doubled from the summer of 2006 to late 2007." *Id*. at xxii. Early Payment Default is a significant indicator of pervasive disregard for underwriting standards. The FCIC Report noted that mortgage fraud "flourished in an environment of collapsing lending standards. . . ." *Id*.

92. Lenders and borrowers took advantage of this climate, with borrowers willing to take on loans and lenders anxious to get those borrowers into the loans, ignoring even loosened underwriting standards. The FCIC Report observed: "Many mortgage lenders set the bar so low that lenders simply took eager borrowers' qualifications on faith, often with a willful disregard for a borrower's ability to pay." *Id*. at xxiii.

93. In an interview with the FCIC, Alphonso Jackson, the Secretary of the Department of Housing and Urban Affairs ("HUD") from 2004 to 2008, related that HUD had heard about mortgage lenders "running wild, taking applications over the Internet, not verifying people's income or their ability to have a job." *Id*. at 12-13 (internal quotation marks omitted).

94. Chairman of the Federal Reserve Board, Benjamin Bernanke, spoke to the decline of underwriting standards in his speech before the World Affairs Council of Greater Richmond on April 10, 2008:

> First, at the point of origination, underwriting standards became increasingly compromised. The best-known and most serious case is that of subprime mortgages, mortgages extended to borrowers with weaker credit histories. To a degree that increased over time, these mortgages were often poorly documented and extended with insufficient attention to the borrower's ability to repay. In retrospect, the breakdown in underwriting can be linked to the incentives that the originate-to-distribute model, as implemented in this case, created for the originators. Notably, the incentive structures sometimes often tied originator revenue to loan volume, rather than to the quality of the loans being passed up the chain. Investors normally have the right to put loans that default quickly back to the originator, which should tend to apply some discipline to the underwriting

> process. However, in the recent episode, some originators had little capital at stake, reducing their exposure to the risk that the loans would perform poorly.

Benjamin Bernanke, Chairman, Federal Reserve Board, Speech to the World Affairs Council of Greater Richmond, *Addressing Weaknesses in the Global Financial Markets: The Report of the President's Working Group on Financial Markets*, Apr. 10, 2008.

95. Investment banks securitized loans that were not originated in accordance with underwriting guidelines and failed to disclose this fact in RMBS offering documents. As the FCIC Report noted:

> The Commission concludes that firms securitizing mortgages failed to perform adequate due diligence on the mortgages they purchased and at times knowingly waived compliance with underwriting standards. Potential investors were not fully informed or were misled about the poor quality of the mortgages contained in some mortgage-related securities. These problems appear to have been significant.

FCIC Report at 187.

96. The lack of disclosure regarding the true underwriting practices of the Originators in the Offering Documents at issue in this Complaint put U.S. Central and WesCorp at a severe disadvantage. The FSOC explained that the origination and securitization process contains inherent "information asymmetries" that put investors at a disadvantage regarding critical information concerning the quality and performance of RMBS. The FSOC Risk Retention Report described the information disadvantage for investors of RMBS:

> One important informational friction highlighted during the recent financial crisis has aspects of a "lemons" problem that exists between the issuer and investor. An originator has more information about the ability of a borrower to repay than an investor, because the originator is the party making the loan. Because the investor is several steps removed from the borrower, the investor may receive less robust loan performance information. Additionally, the large number of assets and the disclosures provided to investors may not include sufficient information on the quality of the underlying financial assets for investors to undertake full due diligence on each asset that backs the security.

FSOC Risk Retention Report at 9 (footnote omitted).

97. Because investors had limited or no access to information concerning the actual quality of loans underlying the RMBS, the OTD model created a situation where the origination of low quality mortgages through poor underwriting thrived. The FSOC found:

> In the originate-to-distribute model, originators receive significant compensation upfront without retaining a material ongoing economic interest in the performance of the loan. This reduces the economic incentive of originators and securitizers to evaluate the credit quality of the underlying loans carefully. Some research indicates that securitization was associated with lower quality loans in the financial crisis. For instance, one study found that subprime borrowers with credit scores just above a threshold commonly used by securitizers to determine which loans to purchase defaulted at significantly higher rates than those with credit scores below the threshold. By lowering underwriting standards, securitization may have increased the amount of credit extended, resulting in riskier and unsustainable loans that otherwise may not have been originated.

Id. at 11 (footnote omitted).

98. The FSOC reported that as the OTD model became more pervasive in the mortgage industry, underwriting practices weakened across the industry. The FSOC Risk Retention Report found "[t]his deterioration was particularly prevalent with respect to the verification of the borrower's income, assets, and employment for residential real estate loans. . . ." *Id.*

99. In sum, the disregard of underwriting standards was pervasive across originators. The failure to adhere to underwriting standards directly contributed to the sharp decline in the quality of mortgages that became part of mortgage pools collateralizing RMBS. The lack of adherence to underwriting standards for the loans underlying RMBS was not disclosed to investors in the offering materials. The nature of the securitization process, with the investor several steps removed from the origination of the mortgages underlying the RMBS, made it difficult for investors to ascertain how the RMBS would perform.

100. As discussed below, facts have recently come to light that show at least one of the Originators that contributed to the loan pools underlying the RMBS at issue in this Complaint engaged in these underwriting practices.

2. NovaStar Mortgage, Inc.'s Systematic Disregard of Underwriting Standards

101. NovaStar Mortgage, Inc. ("NovaStar"), a former Missouri subprime lender with offices in several states, originated numerous subprime loans that later defaulted. NovaStar routinely and systemically disregarded its own underwriting standards and guidelines in order to generate more loan origination business, from which it reaped enormous profits. NovaStar originated or contributed a critical portion of loans in the mortgage pool underlying the NovaStar Mortgage Funding Trust, Series 2006-5 offering.

102. NovaStar failed to abide by its own underwriting guidelines. It granted numerous exceptions to potential borrowers, many of whom received loans that they could not afford backed by questionable collateral. NovaStar focused on volume in spite of its underwriting guidelines. Indeed, the Wall Street Journal reported that, among other things, NovaStar touted its "Credit Score Override Program" for loan approval:

> Deutsche's disparate dealings with two investor clients in February 2007 illustrate how it played both sides of the mortgage-securities market.
>
> That month, a time when the U.S. housing and mortgage markets were beginning to crack, Deutsche was helping put together bond deals backed by subprime mortgages.
>
> They included loans originated by NovaStar Financial Inc., a Missouri subprime lender that Deutsche had financed. A promotional flier from NovaStar in 2003 said, "Ignore the Rules and Qualify More Borrowers with our Credit Score Override Program!" As housing boomed, NovaStar thrived.
>
> But on Feb. 20, 2007, NovaStar reported a quarterly loss and said it was tightening the spigot on new loans. It was another piece of evidence the long-rising housing market was headed the other way. That evening, a senior Deutsche

> trader received an email from a hedge-fund manager with the subject line "Novastar" and the message: "It is like the plague."

Carrick MollenKamp and Serena Ng, *Dual Role in Housing Deals Puts Spotlight on Deutsche*, WALL ST. J., Aug. 3, 2010, *available at* http://online.wsj.com/article/SB10001424052748703900004575325232441982598.html.

103. NovaStar regularly originated loans for borrowers who did not have a realistic capacity to repay the loans, as illustrated in this report from the New York Times:

> The Jordans are fighting a foreclosure on their home of 25 years that they say was a result of an abusive and predatory loan made by NovaStar Mortgage Inc. A lender that had been cited by the Department of Housing and Urban Development for improprieties, like widely hiring outside contractors as loan officers, NovaStar ran out of cash in 2007 and is no longer making loans.
>
> . . .
>
> The facts surrounding the Jordans' case are depressingly familiar. In 2004, interested in refinancing their adjustable-rate mortgage as a fixed-rate loan, they said they were promised by NovaStar that they would receive one. In actuality, their lawsuit says, they received a $124,000 loan with an initial interest rate of 10.45 percent that could rise as high as 17.45 percent over the life of the loan.
>
> Mrs. Jordan, 66, said that she and her husband, who is disabled, provided NovaStar with full documentation of their pension, annuity and Social Security statements showing that their net monthly income was $2,697. That meant that the initial mortgage payment on the new loan -- $1,215 -- amounted to 45 percent of the Jordans' monthly net income.
>
> The Jordans were charged $5,934 when they took on the mortgage, almost 5 percent of the loan amount. The loan proceeds paid off the previous mortgage, $11,000 in debts and provided them with $9,616 in cash.
>
> Neither of the Jordans knew the loan was adjustable until two years after the closing, according to the lawsuit. That was when they began getting notices of an interest-rate increase from Nova- Star. The monthly payment is now $1,385.
>
> "I got duped," Mrs. Jordan said. "They knew how much money we got each month. Next thing I know I couldn't buy anything to eat and I couldn't pay my other bills."

Gretchen Morgenson, *Looking for The Lenders' Little Helpers*, N.Y. TIMES, July 12, 2009.

104. Investor Michael Burry studied NovaStar's underwriting practices, as reported by The Pitch in this May 13, 2010 article:

> One of the subprime-loan originators that Burry studied was NovaStar, a company that started in Westwood and later moved into an office building off Ward Parkway. NovaStar specialized in making home loans to people with shaky credit.
>
> Burry noticed when NovaStar began issuing loans of increasingly crappy quality. From early 2004 to late 2005, the number of NovaStar borrowers taking out interest-only loans - no money down! - nearly quintupled.
>
> The charade lasted until home prices stopped growing at an unprecedented clip and sketchy borrowers began to default on their tricked-out loans.
>
> . . .
>
> NovaStar, a company that the New York Times labeled "Exhibit A" for anyone interested in the goofy lending practices which precipitated the housing collapse, was eventually delisted from the New York Stock Exchange.

David Martin, *Hailed as a Rebel Reformer, KC Fed Chief Tom Hoenig is Really Neither* THE PITCH, May 13, 2010, http://www.pitch.com/2010-05-13/news/kc-fed-chief-tom-hoenig-is-no-rebel/.

105. NovaStar faces a class action suit that alleges NovaStar systemically disregarded its underwriting guidelines when originating mortgages in 2006 and 2007 that were subsequently securitized into RMBS. *See* Second Amended Class Action Complaint, *N.J. Carpenters Health Fund v. NovaStar Mortgage, Inc.*, No. 08-cv-5310 (S.D.N.Y. filed May 18, 2011) ("N.J. Carpenters SAC").

106. The N.J. Carpenters SAC includes statements concerning NovaStar's systemic disregard of its underwriting guidelines from former NovaStar employees who worked in the NovaStar mortgage origination business. These former employees include a former Vice President of Operations, Quality Control Auditors and Supervisors, Senior Underwriters, Account Managers, and Account Executives. *See id.* ¶ 57.

107. Former Account Managers, Underwriters, and Quality Control Auditors reported that the pressure to increase the volume of loan production led to the systemic disregard of NovaStar's underwriting guidelines in mortgage loan origination. *See id*. at ¶ 70.

108. When NovaStar Underwriters and Quality Control Auditors alerted supervisors about loans that were initially rejected because of suspicious or fraudulent documentation, NovaStar management would routinely override these initial loan rejections and approve the loans. *See id*. at ¶ 70.

109. For Full Documentation loans, NovaStar Underwriters would reject loan applications where employment could not be adequately verified. In many cases, NovaStar management overrode the initial rejection, disregarding the questionable verification of employment in order to approve the loan application. *See id*. at ¶ 75.

110. The N.J. Carpenters SAC noted that Full Documentation loan applications regularly included unreasonably inflated income. For instance, many loan application files reported income for several housekeepers in South Florida upwards of $200,000 a year. *See id*. at ¶ 77.

111. For Stated Income loans, inflated income was commonplace. Reported income in Stated Income loans was apparently far from reasonable in relation to the applicant's employment. *See id*. at ¶ 80. When underwriters denied loan applications because of unreasonable stated income, NovaStar management disregarded the initial rejection and subsequently approved in spite of the unreasonable reported income. *See id*. at ¶ 81.

VIII. THE OFFERING DOCUMENTS CONTAINED UNTRUE STATEMENTS OF MATERIAL FACT

112. The Offering Documents included material untrue statements or omitted facts necessary to make the statements made, in light of the circumstances under which they were

made, not misleading.

113. For purposes of Section 11 liability, the prospectus supplements are part of and included in the registration statements of the offerings pursuant to 17 C.F.R. §§ 230.158, 230.430B (2008); *see also* Securities Offering Reform, 70 Fed. Reg. 44,722-01, 44,768-69 (Aug. 3, 2005).

114. Statements in the Offering Documents concerning the following subjects were material and untrue at the time they were made: (1) the Originators' evaluation of the borrower's likelihood and capacity to repay the loan through application of the stated underwriting standards, including the calculation and use of an accurate "debt-to-income" ratio and the frequency and use of exceptions to those standards; (2) adherence to stated underwriting standards for reduced documentation programs; (3) the accurate calculation of the "loan-to-value" ratio for the mortgaged property and the accuracy of appraisals; and (4) the existence of credit enhancement to minimize the risk of loss; (5) the occupancy status of the property securing the mortgages in the pool; and (6) the weighted average loan-to-value ratio of the loans in the pool.

115. NovaStar Mortgage, Inc. originated 100% of the loans in the NovaStar Mortgage Funding Trust, Series 2006-5 offering. NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement, Sept. 22, 2006, at S-74. NovaStar's systematic disregard of its underwriting standards is detailed in Section VII.D.2 (*supra*).

116. In the Wachovia Mortgage Loan Trust, Series 2006-ALT1 offering, the following originators contributed loans in the percentages indicated in parenthesis: National City Mortgage (65.93%), Accredited Home Lenders, Inc. (18.88%), Wachovia Mortgage Corp. (12.44%) and American Mortgage Network, Inc. (2.75%). Wachovia Mortgage Loan Trust, Series 2006-ALT1

Prospectus Supplement, Dec. 19, 2006, at S-9.

117. Examples of material untrue statements and/or omissions of fact from the RMBS listed above follow.

A. Untrue Statements Concerning Evaluation of the Borrower's Capacity and Likelihood To Repay the Mortgage Loan

118. The NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement represented:

> The underwriting guidelines of the sponsor are intended to evaluate the credit history of the potential borrower, the capacity and willingness of the borrower to repay the loan and the adequacy of the collateral securing the loan.

NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement at S-74; *see* NovaStar Mortgage Funding Trust, Series 2006-5 Registration Statement, May 25, 2006, at S-57.

119. The NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement represented:

> Each loan applicant completes an application that includes information with respect to the applicant's income, liabilities and employment history. Prior to issuing an approval on the loan, the loan underwriter runs an independent credit report or pulls a reissue of the clients credit through an independent 3rd party vendor, which provides detailed information concerning the payment history of the borrower on all of their debts to verify that the information submitted by the broker is still accurate and up to date.

NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement at S-74; *see* NovaStar Mortgage Funding Trust, Series 2006-5 Registration Statement, May 25, 2006, at S-57.

120. The NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement represented:

> On a case-by-case basis, exceptions to the underwriting guidelines are made where the sponsor believes compensating factors exist. Compensating factors may consist of factors like length of time in residence, lowering of the borrower's monthly debt service payments, the loan-to-value ratio on the loan, as applicable, or other criteria that in the judgment of the loan underwriter warrant an exception.

> All loans in excess of $350,000 currently require the approval of the underwriting supervisor or designee approved by the supervisor. All loans over $650,000 require the approval of the VP of Operations and Corporate Credit Department or its approved designees. In addition, the President of the sponsor approves all loans in excess of $1,100,000.

NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement at S-75; *see* NovaStar Mortgage Funding Trust, Series 2006-5 Registration Statement, May 25, 2006, at S-58.

121. Concerning National City's underwriting standards, the Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated:

> National City Mortgage's underwriting standards are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. These standards are applied in accordance with the applicable federal and state laws and regulations. Exceptions to the underwriting standards are permitted where compensating factors are present. Generally, each mortgagor will have been required to complete an application designed to provide to the lender pertinent credit information concerning the mortgagor. The mortgagor will have given information with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and will have furnished the lender with authorization to obtain a credit report which summarizes the mortgagor's credit history. In the case of investment properties and two-to four-unit dwellings, income derived from the mortgaged property may have been considered for underwriting purposes, in addition to the income of the mortgagor from other sources.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-34.

122. The Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement continued with respect to National City's underwriting standards:

> In determining whether a prospective borrower has sufficient monthly income available (i) to meet the borrower's monthly obligation on their proposed mortgage loan and (ii) to meet the monthly housing expenses and other financial obligation on the proposed mortgage loan, the originator generally considers, when required by the applicable documentation program, the ratio of such amounts to the proposed borrower's acceptable stable monthly gross income. Such ratios vary depending on a number of underwriting criteria, including loan-to-value ratios, and are determined on a loan-by-loan basis. With respect to second homes or vacation properties, no income derived from the property will have been considered for underwriting purposes. The originator also examines a

> prospective borrower's credit report. Generally, each credit report provides a credit score for the borrower. Credit scores generally range from 350 to 840 and are available from three major credit bureaus: Experian (formerly TRW Information Systems and Services), Equifax and Trans Union. If three credit scores are obtained, the originator applies the lower middle score of all borrowers.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-35.

123. With respect to Accredited's underwriting standards, the Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated:

> Each mortgage loan originated or acquired by Accredited is underwritten prior to loan closing, or re-underwritten after loan closing but prior to purchase by Accredited, in accordance with Accredited's underwriting guidelines. Accredited's underwriting process is intended to assess a mortgage loan applicant's credit standing and repayment ability and the value and adequacy of the real property security as collateral for the proposed mortgage loan. All underwriting and re-underwriting is performed by Accredited's underwriting personnel, and Accredited does not delegate underwriting authority to any broker, correspondent or other mortgage loan provider. Accredited's underwriting standards are applied in a standardized manner which complies with applicable federal and state laws and regulations.
>
> All of Accredited's prospective mortgage brokers and correspondents are subjected to a pre-approval process, including verification that all required licenses are current, and are required to sign agreements pursuant to which they represent and warrant compliance with Accredited's underwriting guidelines and all applicable laws and regulations. Accredited periodically reviews each of its mortgage broker's and correspondent's performance relative to issues disclosed by Accredited's quality control review, and discontinues relationships with unacceptable performers.
>
> Each prospective mortgagor completes a mortgage loan application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information. At least one credit report on each applicant from an independent, nationally recognized credit reporting company is required. The credit report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions, or judgments. All derogatory credit items occurring within the preceding two years and all credit inquiries within the preceding 90 days must be addressed by the applicant to the satisfaction of Accredited.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-37.

124. The Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement

continued with respect to Accredited's underwriting standards:

> A critical function of Accredited's underwriting process is to identify the level of credit risk associated with each applicant for a mortgage loan. Accredited has established five principal classifications, "A+" to "C," with respect to the credit profile of potential borrowers, and a rating is assigned to each mortgage loan based upon these classifications. Accredited has a sixth, generally inactive credit classification, called "C-" which may be assigned to a borrower with a current or recent foreclosure or bankruptcy and can still be used on an exception basis with approval from executive management. Accredited assigns credit grades by analyzing mortgage payment history, consumer credit history, credit score, bankruptcy history, and debt-to-income ratio.
>
> Each month, Accredited's internal audit and quality control department generally reviews and re-underwrites a sample of the mortgage loans originated by Accredited. The statistical sample of mortgage loans is chosen by random selection and based on the prior defect rates. In addition, targeted reviews are conducted, including but not limited to the following areas: regulatory compliance, non-performing assets, targeted and discretionary reviews, or where fraud is suspected. The quality control department re-underwrites these mortgage loans through an in-depth analysis of the following areas: application, income/employment, appraisals, credit decision, program criteria, net tangible benefits, re-verifications, and compliance. Specifically, these tests focus on verifying proper completion of borrower disclosures and other mortgage loan documentation, correct processing of all legally required documentation, and compliance with time frames imposed by applicable law. When fraud is suspected, the quality control department undertakes a comprehensive re-underwriting of not only the mortgage loan in question, but any related mortgage loans connected by broker, appraiser, or other parties to the transaction. All findings of the internal audit and quality control department are reported on a regular basis to members of senior management and the audit committee of the board of directors. The Chief Executive Officer and the Chief Operating Officer, along with the Director of Operations and others analyze the results of the monthly internal audit and quality control department audits as well as performance trends and servicing issues. Based upon this analysis, corrective actions are taken.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-38.

125. With respect to Accredited's underwriting of Alt-A loans, the Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated:

> Accredited also offers Alt-A mortgage loan programs with additional income documentation types, higher qualifying minimum credit scores and higher loan amounts than the non-prime programs. The same underwriting standards as

> described above for non-prime programs also apply to Alt-A mortgage loans. Alt-A documentation types requiring less documentation, such as "SISA," defined as Stated Income Stated Assets, "No Ratio," and "No Doc," also receive close review and evaluation to determine whether the borrower's ability to repay the mortgage debt is reasonable. Documentation and qualifying requirements vary depending on the product selected.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-39.

126. Finally, with respect to exceptions to Accredited's guidelines, the Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated:

> Exceptions. Accredited may allow exceptions to its underwriting guidelines in accordance with Accredited's established exception policy. Exceptions may be allowed based upon the presence of compensating factors such as a low LTV, demonstrated pride of ownership and stability of employment.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-39.

127. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the quality of the loans in the mortgage pool directly affects the riskiness of the RMBS investment, and the quality of the loans is dependent upon the underwriting process employed. The preceding statements were untrue at the time they were made because, as alleged herein, the Originators did not adhere to the stated underwriting guidelines, did not effectively evaluate the borrowers' ability or likelihood to repay the loans, did not properly evaluate whether the borrower's debt-to-income ratio supported a conclusion that the borrower had the means to meet his/her monthly obligations, and did not ensure that adequate compensating factors justified the granting of exceptions to guidelines. Rather, as alleged herein, the Originators systematically disregarded the stated underwriting guidelines in order to increase the volume of mortgages originated (*see supra* Section VII.D). Further evidence of this fact is found in, among other things, the surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5), the rate at which actual losses outpaced

expected losses within the first year after the offerings (*see supra* Figure 2), the collapse of the credit ratings (*see supra* Table 4), and the fact that the Originators were engaged in high OTD lending (*see supra* Table 6).

B. Untrue Statements Concerning Reduced Documentation Programs

128. The NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement represented:

> The underwriting guidelines include six [sic] levels of applicant documentation requirements, referred to as "Full Documentation," "Limited Documentation," "Stated Income," "No Documentation," "No Income/No Asset," "Streamline" and "Full Doc/12-Month Personal Bank Statement." Under the Full Documentation program applicants generally are required to submit verification of employment and most recent pay stub or up to prior two years W-2 forms and most recent pay stub. Under the Limited Documentation program, no such verification is required, however, bank statements for the most recent consecutive 6-month period are required to evidence cash flow.

NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement at S-75; *see* NovaStar Mortgage Funding Trust, Series 2006-5 Registration Statement, May 25, 2006, at S-57.

129. The NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement represented:

> Under the Stated Income program, an applicant may be qualified based on monthly income as stated in the loan application. Under the "No Documentation" program, an applicant provides no information as it relates to their income. Under the "No Income/No Asset" program, the applicant's income and assets are not verified, however the applicant's employment is verified.

NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement at S-75; *see* NovaStar Mortgage Funding Trust, Series 2006-5 Registration Statement, May 25, 2006, at S-57.

130. The Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated with respect to National City's documentation programs:

> Full/Alternative Documentation. Under full documentation, the prospective borrower's employment, income and assets are verified through

written and telephonic communications, covering a 2-year period for employment/income and a 2-month period for assets.

Typically the following documentation is required but not limited to:

o Verbal verification of employment

o Pay stubs covering the most recent 30 day period showing YTD income

o Most recent 2 year's 1040s for self-employed borrowers

o 1 or 2 months bank statements

o W-2 forms for 24 months

Stated Documentation. Under a stated income documentation program, more emphasis is placed on the value and adequacy of the mortgaged property as collateral, credit history and other assets of the borrower than on a verified income of the borrower. Although the income is not verified, the originators obtain a telephonic verification of the borrower's employment without reference to income. Employment stability is a critical component in evaluating the borrower's continuing ability to meet obligations. Borrower's assets may or may not be verified.

No Ratio Documentation. Under a stated income documentation program, more emphasis is placed on the value and adequacy of the mortgaged property as collateral, credit history and other assets of the borrower than on a verified income of the borrower. Under the no ratio documentation program the borrower's income is not stated and no ratios are calculated. Although the income is not stated nor verified, lenders obtain a telephonic verification of the borrower's employment without reference to income.

No Income/No Employment/No Asset Documentation (NO DOC). Under the no income/no employment/no asset documentation program, income, employment and assets are not stated. The underwriting of such mortgage loans is based entirely on the adequacy of the mortgaged property as collateral and on the credit history of the borrower.

No Income/No Asset/Employment Verified (NINA). Under the no income/no asset/employment verified documentation program, the borrower's income and assets are not disclosed. A verbal verification of employment is required. Employment stability is a critical component in evaluating the borrower's continuing ability to meet obligations. The underwriting of such mortgage loans is based entirely on the adequacy of the mortgaged property as collateral and on the credit history of the borrower.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-35-36.

131. With respect to Accredited's documentation programs, the Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated:

> Accredited's underwriting guidelines require verification or evaluation of the income of each applicant pursuant to Accredited's "Full Documentation," "Lite Documentation" or "Stated Income" programs. Under each of these programs, Accredited reviews the mortgage loan applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, and calculates debt service-to-income ratios to determine the applicant's ability to repay the mortgage loan. Under the Full Documentation program, applicants are generally required to submit the most current YTD pay stub and written verification of income signed by the employer, Forms W-2 or 1040 and, in the case of self-employed applicants, most recent two years' complete tax returns, signed YTD profit and loss statement, or bank statements. Personal bank statements are acceptable as Full Documentation, with bank statements for the preceding 24 months acceptable for "Alt2" documentation type or bank statements for the preceding 12 months acceptable for "Alt1." Under the Lite Documentation program, applicants must be self-employed and are required to submit personal bank statements covering at least the preceding six months. Under the Stated Income program, applicants are evaluated based upon income as stated in the mortgage loan application. Under all programs, Accredited may verify by telephone employment, business and income, and self-employed applicants may be required to submit a business license.
>
> Verification of the source of funds (if any) required to be paid by the applicant at closing is generally required under all documentation programs in the form of a standard verification of deposit, two months' consecutive bank statements or other acceptable documentation. On Accredited's core mortgage loan products and on some of its specialty products, twelve months' mortgage payment or rental history must be verified by the related lender or landlord.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-38.

132. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the quality of the loans in the mortgage pool directly affects the riskiness of the RMBS investment, and the quality of the loans is dependent upon the underwriting process employed. The preceding statements were untrue at the time they were made, because regardless of the documentation program purportedly employed, the Originators systematically disregarded their underwriting guidelines in order to

increase the volume of mortgages originated, emphasizing quantity of loans rather than the quality of those loans (*see supra* Section VII.D). Further evidence of this fact is found in, among other things, the surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5), the huge discrepancy between expected and actual losses (*see supra* Figure 2), the collapse of the credit ratings (*see supra* Table 4), and the fact that the Originators were engaged in high OTD lending (*see supra* Table 6).

C. Untrue Statements Concerning Loan-to-Value Ratios

133. The NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement included the following chart of the maximum LTVs allowed by NovaStar depending upon the type of loan:

	M1	**M2**	**M3**	**M4**	**Alt-A (NINA)**	**Alt-A (No doc)**	**Alt-A (Full/Stated)**	**Piggybacks**
Maximum LTV Ratio	100% (580 score purchase and rate/term, 600 score cash out) or 97%/95% (580 score) or 90%	100% (580 purchase, 600 score rate/term and cash out score) or 97%/95% (580 score), 90% (520 score) ,or 70% (500 score)	85% (540 score)	75%	95%	90%	100% (min 660 score, Full Doc only); 95% with 660 score; 90% with 620 score	100% CLTV
Maximum Combined LTV Ratio	100% (max 80% LTV) or 95%	100% (max 80% LTV) or 95%	100% (max 80% LTV) or 90%	85%	100% (NMI second loan only)	100% (NMI second loan only)	100% (NMI second loan only)	100%

NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement at S-77.

134. Concerning the maximum LTVs allowed by National City, the Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated:

> The following underwriting guidelines apply to substantially all of the mortgage loans originated by National City Mortgage. With respect to fully documented, non-conforming purchase money or rate/term refinance loans secured by primary residences, loan- to-value ratios at origination of up to 95% for mortgage loans with original principal balances of up to $500,000 are generally allowed. In certain circumstances, 100% loan-to-value ratios are allowed for principal balances not to exceed $500,000 adhering to stricter underwriting standards.
>
> Mortgage loans with principal balances up to $1,000,000 are allowed if the loan is secured by the borrower's primary residence. The loan-to- value ratio generally may not exceed 80%. Mortgage loans with principal balances exceeding $1,000,000 ("super jumbos") up to $2,000,000 are allowed if the loan is secured by the borrower's primary residence. The loan-to- value ratio for super jumbos generally may not exceed 75%.
>
> For cash out refinance loans, the maximum loan-to- value ratio generally is 95% and the maximum "cash out" amount permitted is based in part on the original loan-to-value of the related mortgage loan and FICO score. Generally, for loan-to-values 55% or below there are no restrictions on cash out amounts. Less than fully-documented loans generally have lower loan-to-value and/or loan amount limits.
>
> For each mortgage loan with a loan-to-value ratio at origination exceeding 80%, a primary mortgage insurance policy insuring a portion of the balance of the mortgage loan at least equal to the product of the original principal balance of the mortgage loan is generally required. No such primary mortgage insurance policy will be required with respect to any such mortgage loan after the date on which the related loan-to-value ratio decreases to 80% or less or, based upon new appraisal, the principal balance of such mortgage loan represents 80% or less of the new appraised value. All of the insurers that have issued primary mortgage insurance policies with respect to the Mortgage Loans meet Fannie Mae's or Freddie Mac's standard or are acceptable to the Rating Agencies.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-34-35.

135. The Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated regarding Accredited's maximum LTVs:

> In general, Accredited's LTV maximums decrease with credit quality, and, within each credit classification, the LTV maximums vary depending on the property type. LTV maximums for mortgage loans secured by owner-occupied properties are higher than for mortgage loans secured by properties that are not owner-occupied. LTV maximums for Lite Documentation and Stated Income programs are generally lower than the LTV maximums for corresponding Full Documentation programs. Our maximum debt-to-income ratios range from 50%

> to 55% for Full Documentation programs, and maximum 50% for Lite Documentation and Stated Income Programs.
>
> Accredited offers a variety of specialty programs that provide higher LTV's and CLTV's to borrowers in higher credit grades. Credit grades may be determined by the same criteria as in the core programs, but may also be determined only on the basis of mortgage credit or credit score. Specialty programs may be restricted as to property and occupancy types and documentation requirements.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-39.

136. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made because the riskiness of the RMBS investment is directly dependent on the quality of the underwriting process and adequate assessment and limits on loan-to-value ratios (in addition to accurate appraisals) is key to that process. The preceding statements were untrue at the time they were made because the Originators did not adhere to the maximum loan-to-value ratios as represented in the Offering Documents, encouraged inflated appraisals and frequently granted loans with high loan-to-value ratios with no meaningful assessment of the borrower's ability to repay the loan based on the borrower's credit profile (*see supra* Section VII.D). Further evidence of this fact is found in, among other things, the surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5), the huge discrepancy between expected and actual losses (*see supra* Figure 2), the collapse of the credit ratings (*see supra* Table 4), and the fact that the Originators were engaged in high OTD lending (*see supra* Table 6).

D. Untrue Statements Concerning Credit Enhancement

137. The NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement represented:

> The overcollateralization, subordination, limited cross-collateralization, loss allocation, excess cashflow and primary mortgage insurance features described in this prospectus supplement are intended to enhance the likelihood that the

> certificateholders will receive regular payments of interest and principal, but such credit enhancements are limited in nature and may be insufficient to cover all losses on the mortgage loans.

NovaStar Mortgage Funding Trust, Series 2006-5 Prospectus Supplement at S-12; *see* NovaStar Mortgage Funding Trust, Series 2006-5 Registration Statement, May 25, 2006, at S-12.

138. The Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement stated:

> Credit enhancement is intended to provide limited protection to holders of the certificates against shortfalls in payments received and losses realized on the mortgage loans. The credit enhancement for the certificates will consist of excess interest, net payments from the swap counterparty, overcollateralization and subordination features described in this prospectus supplement.
>
> Excess Interest and Overcollateralization. The overcollateralization amount is the excess of the aggregate outstanding principal balance of the mortgage loans over the aggregate principal balance of the certificates. On the closing date, the overcollateralization amount will equal approximately 0.65% of the aggregate outstanding principal balance of the mortgage loans as of the cut-off date. Generally, because more interest is anticipated to be paid by the mortgagors than is necessary to pay the interest accrued on the certificates and the expenses of the trust, there is expected to be excess interest each month. If the overcollateralization amount is reduced below the overcollateralization target amount as a result of losses on the mortgage loans, the trust will apply some or all of this excess interest as principal payments on the classes of certificates then entitled to receive principal distributions until the overcollateralization target is restored, resulting in a limited acceleration of amortization of the offered certificates relative to the mortgage loans. Once the required level of overcollateralization is restored, the acceleration feature will cease, unless it becomes necessary again to achieve the required level of overcollateralization. The actual level of overcollateralization may increase or decrease over time. This could result in a temporarily faster or slower amortization of the certificates. See "Description of the Certificates—Overcollateralization Provisions" in this prospectus supplement.
>
> Subordination. The rights of the holders of the more junior classes of certificates will be subordinated to the rights of the holders of the more senior classes of certificates with respect to interest and principal distributions.
>
> In general, the protection afforded the holders of more senior classes of certificates by means of this subordination will be effected in two ways:

- by the preferential right of the holders of the more senior classes to receive, prior to any distribution being made on any distribution date to the holders of the more junior classes of certificates, the amount of interest and principal due on the more senior classes of certificates and, if necessary, by the right of the more senior holders to receive future distributions on the mortgage loans that would otherwise have been allocated to the holders of the more junior classes of certificates; and

- by the allocation to the more junior classes of certificates (in inverse order of seniority) of losses resulting from the liquidation of defaulted mortgage loans or the bankruptcy of mortgagors prior to the allocation of these losses to the more senior classes of certificates, until their respective certificate principal balances have been reduced to zero. See "Description of the Certificates—Subordination of the Subordinated Certificates with Respect to Distributions" in this prospectus supplement.

Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-8.

139. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because U.S. Central and WesCorp nearly always purchased the highest rated tranches of the RMBS, and those highly rated tranches relied on the credit enhancement, which purportedly afforded protection against financial loss. The preceding statements were untrue at the time they were made, because, due to the Originators' systematic disregard of underwriting standards, the mortgages in the pools were fatally impaired at the outset and destined to fail (*see supra* Section VII.D). This rendered the protection allegedly afforded by the credit enhancement in the highest tranches illusory. Further evidence of the Originators' pervasive disregard of underwriting standards is found in the surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5); the huge discrepancy between expected and actual losses (*see supra* Figure 2); the collapse of the credit ratings (*see supra* Table 4); and the Originators' high OTD lending (*see supra* Table 6).

E. Untrue Statements Concerning the Occupancy Type of the Properties Securing Mortgages in the Pool

140. The Offering Documents made specific representations regarding the occupancy

type of the mortgage loans collateralizing the RMBS, categorizing them as either: 1) "primary" residence (the borrower lives in the residence); 2) "second" (or vacation) residence; or 3) "investment" (or non-owner occupied). *See, e.g.*, Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-10.

141. UNTRUE STATEMENTS AND OMITTED INFORMATION: Representations regarding occupancy type are material, because borrowers are less likely to default on mortgages on their primary residences. As Barclays Capital explained:

> Most home owners become anchored to their communities through the schools their children attend and the friends they make. As a result, defaulting on the mortgage backing one's primary residence can be a jarring experience, one that most people would choose to avoid. By contrast, an investment property primarily represents a stream of income or speculative opportunity, making the decision to default more one of dollars and cents than of a major life change. As a result, all else being equal, borrowers are less likely to default on a mortgage backed by their primary residence than on one backed by an investment property.

Barclays Capital, *Barclays Loan Transition Model*, Nov. 30, 2010, at 9. The NCUA Board commissioned a report to test the accuracy of representations in the Offering Documents concerning occupancy type with respect to the Wachovia Mortgage Loan Trust, Series 2006-ALT1 offering. Data was not available to perform the analysis for the NovaStar Mortgage Funding Trust, Series 2006-5 offering. Several tests were used to determine the accuracy of representations regarding occupancy type. One test used credit data to determine if creditors were reporting the securitized property's address as the customer's mailing address six months after origination of the securitized loan. The results of this test showed that there were far fewer owner-occupied residences and far more non-owner occupied residences than represented in the Offering Documents. Specifically, the actual loan pool consisted of 1,505 loans. 1,022 were reported as owner-occupied. The data necessary to perform this particular test was available for 676 of those 1,022 loans. Of the 676 loans tested, 114 or 17% were determined to be inconsistent with the reported occupancy type or "subject to interpretation." Further, the fact that the commissioned report indicates that 17% of the loans were inconsistent with reported occupancy type provides additional support that the Originators engaged in systematic disregard of stated underwriting standards.

F. Untrue Statements Concerning the Weighted Average LTV Ratio for the Pool

142. The report commissioned by the NCUA Board also revealed that the Offering Documents in the Wachovia Mortgage Loan Trust, Series 2006-ALT1 offering contained misrepresentations regarding the "weighted average" loan-to-value ("LTV") ratios of the loan pool collateralizing the security.

143. A loan-to-value ("LTV") ratio expresses the amount of a mortgage lien as a percentage of the total appraised or estimated value of the property. For instance, if a borrower borrows $130,000 to purchase a house estimated to be worth $150,000, the LTV ratio is $130,000/$150,000 or 87%. A loan-to-value ratio can be calculated for first liens (the primary or principal mortgage on the property) or for any junior liens.

144. A "weighted average" is an average in which each value to be averaged is assigned a weight that determines the relative importance of each value to the average. A weighted average can be contrasted with a straight arithmetic mean in which each of the values to be averaged contributes equally to the average. In the context of LTVs, the higher the balance of the loan(s) secured by the property, the more "weight" it is given in relation to the average. To calculate the straight average LTV ratio, the sum of the LTV ratios is simply divided by the number of loans in the pool. To calculate the weighted average LTV ratio, each loan's LTV ratio is multiplied by the loan balance, and the sum of those numbers is divided by the total loan balance of the pool.

145. The report the NCUA Board commissioned calculated LTV ratios for the loans securitizing the offering at issue using a retrospective automated valuation model ("AVM") to estimate the value of the property generally using data regarding comparable sales that only would have been available at the time of loan origination. In contrast to human appraisals, which are inherently subjective, AVMs estimate the market value of a property through more objective means. AVMs use an algorithm that generates an estimated property value based on various components, including data regarding the subject property and data regarding sales of comparable properties. The AVM used to generate the report for the NCUA Board uses stringent criteria in determining an estimated property value (for instance, properties used as "comparables" must truly resemble the subject property) and thus is very accurate.

146. The Offering Documents represented that the "weighted average LTV" was 76.12%. *See* Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at I-1. This number was calculated using the LTV ratio of the first liens included in the pool. Wachovia Mortgage Loan Trust, Series 2006-ALT1 Prospectus Supplement at S-i (stating that the loans contained in the trust are "residential first lien mortgage loans").

147. UNTRUE STATEMENTS AND OMITTED INFORMATION: Representations regarding LTV ratios are material because, generally, the lower the first lien LTV ratio, the more equity the borrower has in the property. The more equity the borrower has in the property, the less likely it is that the borrower will default and the less likely it is that the lender will incur a loss in the event of foreclosure. Thus, as the LTV ratio rises, the likelihood of default and lender loss in the event of foreclosure increases. With respect to 973 of the 1,505 loans in the pool, data was not available to perform an estimation of property value using the AVM. Using the property value as estimated by the retrospective AVM for the remaining 532 loans, the report

commissioned by the NCUA Board determined the weighted average original LTV ratio to be 89.07%. Further, the discrepancy between the reported weighted average original LTV ratio and the ratio calculated using the retrospective AVM provides additional evidence of the Originators' systematic disregard of underwriting standards, notably, accurate valuations of the subject property.

IX. THE CLAIMS ARE TIMELY

148. For actions brought by the NCUA Board as Liquidating Agent, the FCU Act extends the statute of limitations for at least three years from the date of the appointment of the NCUA Board as Conservator or Liquidating Agent. *See* 12 U.S.C. § 1787(b)(14)(B)(i).

149. The NCUA Board placed U.S. Central and WesCorp under conservatorship and appointed itself as conservator on March 20, 2009. On October 1, 2010, the NCUA Board placed U.S. Central and WesCorp into liquidation and appointed itself as Liquidating Agent.

150. Actions brought under Sections 11 and 12(a)(2) of the Securities Act must be:

> brought within one year after the discovery of the untrue statement or the omission, or after such discovery should have been made by the exercise of reasonable diligence. . . . In no event shall any such action be brought to enforce a liability created under section 77k or 77*l*(a)(1) of this title more than three years after the security was bona fide offered to the public, or under section 77*l*(a)(2) of this title more than three years after the sale.

15 U.S.C. § 77m.

151. Actions brought under section 17-12a509 of the Kansas Uniform Securities Act must be brought within "the earlier of two years after discovery of the facts constituting the violation or five years after the violation." Kan. Stat. Ann. § 17-12a509(j).

152. Actions brought under section 25501 of the California Corporate Securities Law must be brought within "five years after the act or transaction constituting the violation or the expiration of two years after the discovery by the plaintiff of the facts constituting the violation,

whichever shall first expire." Cal. Corp. Code § 25506(b).

153. As the Federal Reserve Board noted in November 2008, the "[d]eteriorating lending standards" and "the surge in early payment defaults suggests that underwriting . . . deteriorated on dimensions that were less readily apparent to investors." Mayer, *The Rise in Mortgage Defaults* at 15-16; *see also* FSOC Risk Retention Report at 9.

154. Accordingly, U.S. Central and WesCorp did not discover and could not have discovered the untrue statements and/or misleading omissions in the Offering Documents more than one year prior to March 20, 2009, the date on which the NCUA Board placed U.S. Central and WesCorp into conservatorship. A reasonably diligent investor would not have known even to begin investigating misrepresentations in the Offering Documents until at least the date the securities were downgraded to a rating below investment grade.

155. In addition, U.S. Central and/or the NCUA Board as its Liquidating Agent are or were members of putative classes in the case listed in Table 7, below. Therefore, the NCUA Board's claims are subject to legal tolling of the statute of limitations and statute of repose under the doctrine announced in *American Pipe & Constr. Co. v. Utah*, 414 U.S. 538 (1974) ("American Pipe") and its progeny.

Table 7
(Purchases Subject to Tolling Under American Pipe)

CUSIP	ISSUING ENTITY	BUYER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
66988YAE2	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	9/22/06	*New Jersey Carpenters Health Fund v. NovaStar Mortgage Funding* No. 08-601563 (Sup. Ct. of the State of NY) Class Action Complaint **Filed: May 21, 2008** (Removed to No. 08-5310 (S.D.N.Y.))

CUSIP	ISSUING ENTITY	BUYER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
66988YAF9	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	9/22/06	*New Jersey Carpenters Health Fund v. NovaStar Mortgage Funding* No. 08-601563 (Sup. Ct. of the State of NY) Class Action Complaint **Filed: May 21, 2008** (Removed to No. 08-5310 (S.D.N.Y.))
66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	9/22/06	*New Jersey Carpenters Health Fund v. NovaStar Mortgage Funding* No. 08-601563 (Sup. Ct. of the State of NY) Class Action Complaint **Filed: May 21, 2008** (Removed to No. 08-5310 (S.D.N.Y.))

156. With respect to those RMBS purchases for which the NCUA Board asserts claims under Section 11 of the Securities Act (Counts One and Two), the earliest date they were bona fide offered to the public was September 22, 2006, or not more than three years prior to March 20, 2009. Accordingly, the NCUA Board's Section 11 claims are not time-barred.

157. With respect to those RMBS purchases for which the NCUA Board asserts claims under Section 12(a)(2) (Count Three), the earliest sale was November 30, 2006, or not more than three years prior to March 20, 2009. Accordingly, the NCUA Board's Section 12(a)(2) claims are not time-barred.

158. With respect to those RMBS purchases for which the NCUA Board asserts claims under state law (Counts Four and Five), the earliest purchase date/offering date with respect to those claims was November 30, 2006, or not more than five years prior to March 20, 2009. Accordingly, the NCUA Board's state law claims are not time-barred.

X. CLAIMS FOR RELIEF

COUNT ONE
Section 11 of the Securities Act of 1933
(NovaStar Mortgage Funding Trust, Series 2006-5)

159. The NCUA Board realleges paragraphs 1 through 158 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NovaStar Mortgage Funding Trust, Series 2006-5 offering.

160. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act, with respect to U.S. Central's purchase of the NovaStar Mortgage Funding Trust, Series 2006-5 certificates against Defendant Wachovia as the underwriter.

161. The NCUA Board expressly disclaims and disavows any allegation that could be construed as alleging fraud.

162. At the time the registration statement became effective, it (including the prospectus and any prospectus supplements) contained untrue statements and omitted facts that were necessary to make the statements made not misleading, as alleged above.

163. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

164. U.S. Central purchased the certificates pursuant to and traceable to a defective registration statement, as alleged above.

165. At the time U.S. Central purchased the certificates, it did not know of the untrue statements and omissions contained in the registration statement.

166. Defendant Wachovia's conduct as alleged above violated Section 11.

167. U.S. Central and Plaintiff sustained damages as a result of Defendant Wachovia's

violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Wachovia awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

COUNT TWO
Section 11 of the Securities Act of 1933
(Wachovia Mortgage Loan Trust, Series 2006-ALT1)

168. The NCUA Board realleges paragraphs 1 through 158 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Wachovia Mortgage Loan Trust, Series 2006-ALT1 offering.

169. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act, with respect to U.S. Central and WesCorp's purchases of the Wachovia Mortgage Loan Trust, Series 2006-ALT1 certificates against Defendant Wachovia, as the underwriter.

170. The NCUA Board expressly disclaims and disavows any allegation that could be construed as alleging fraud.

171. At the time the registration statement became effective, it (including the prospectus and any prospectus supplements) contained untrue statements and omitted facts that were necessary to make the statements made not misleading, as alleged above.

172. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

173. U.S. Central and WesCorp purchased the certificates pursuant to and traceable to a defective registration statement, as alleged above.

174. At the time U.S. Central and WesCorp purchased the certificates, they did not

know of the untrue statements and omissions contained in the registration statement.

175. Defendant Wachovia's conduct as alleged above violated Section 11.

176. U.S. Central, WesCorp and Plaintiff sustained damages as a result of Defendant Wachovia's violations of Section 11.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Wachovia awarding all damages, in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

COUNT THREE
Section 12(a)(2) of the Securities Act of 1933
(Wachovia Mortgage Loan Trust, Series 2006-ALT1)

177. The NCUA Board realleges paragraphs 1 through 158 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Wachovia Mortgage Loan Trust, Series 2006-ALT1 offering.

178. The NCUA Board brings this cause of action pursuant to Section 12(a)(2) of the Securities Act, with respect to U.S. Central and WesCorp's purchases of the Wachovia Mortgage Loan Trust, Series 2006-ALT1 certificates against Defendant Wachovia as the underwriter and seller of those certificates.

179. The NCUA Board expressly disclaims and disavows any allegation that could be construed as alleging fraud.

180. Defendant Wachovia offered to sell and sold the securities to U.S. Central and WesCorp through one or more instrumentalities of interstate commerce (*i.e.*, telephone, faxes, mails, e-mail, or other means of electronic communication).

181. Defendant Wachovia offered to sell and sold the securities, for its own financial gain, to U.S. Central and WesCorp by means of the prospectuses and/or prospectus supplements,

as alleged above, and/or oral communications related to the prospectuses and/or prospectus supplements.

182. The prospectuses and/or prospectus supplements contained untrue statements and omitted facts that were necessary to make the statements made not misleading, as alleged above.

183. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

184. U.S. Central and WesCorp purchased the certificates on the initial offering pursuant to the prospectuses and/or prospectus supplements.

185. At the time U.S. Central and WesCorp purchased the certificates, they did not know of the untrue statements and omissions contained in the prospectuses and/or prospectus supplements.

186. Defendant Wachovia's conduct as alleged above violated Section 12(a)(2).

187. U.S. Central, WesCorp and Plaintiff sustained damages as a result of Defendant Wachovia's violations of Section 12(a)(2).

188. Under Section 12(a)(2), the NCUA Board is entitled to rescind and recover the consideration U.S. Central and WesCorp paid for the certificates, minus principal and interest received.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Wachovia, awarding a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

COUNT FOUR
Violation of the California Corporate Securities Law of 1968
Cal. Corp. Code §§ 25401 and 25501
(Wachovia Mortgage Loan Trust, Series 2006-ALT1)

189. The NCUA Board realleges paragraphs 1 through 158 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Wachovia Mortgage Loan Trust, Series 2006-ALT1 offering.

190. The NCUA Board brings this cause of action pursuant to Sections 25401 and 25501 of the California Corporate Securities Law, with respect to WesCorp's purchases of the Wachovia Mortgage Loan Trust, Series 2006-ALT1 certificates against Defendant Wachovia as the seller of those certificates.

191. Defendant Wachovia offered to sell and sold the securities to WesCorp by means of written and/or oral communications which included untrue statements of material fact and/or omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

192. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

193. At the time WesCorp purchased the certificates, it did not know of these untruths or omissions.

194. Defendant Wachovia sold the certificates to WesCorp in California.

195. Defendant Wachovia's sales of the certificates violated Cal. Corp. Code § 25401.

196. WesCorp and Plaintiff sustained damages as a result of Defendant Wachovia's violations of Cal. Corp. Code § 25401, and WesCorp and the NCUA Board are entitled to the remedies provided by Cal. Corp. Code § 25501.

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Wachovia awarding damages in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

COUNT FIVE
Violation of the Kansas Uniform Securities Act
Kan. Stat. Ann. § 17-12a509
(Wachovia Mortgage Loan Trust, Series 2006-ALT1)

197. The NCUA Board realleges paragraphs 1 through 158 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Wachovia Mortgage Loan Trust, Series 2006-ALT1 offering.

198. The NCUA Board brings this cause of action pursuant to Section 17-12a509 of the Kansas Uniform Securities Act, with respect to U.S. Central's purchases of the Wachovia Mortgage Loan Trust, Series 2006-ALT1 certificates against Defendant Wachovia as the seller of those certificates.

199. Defendant Wachovia offered to sell and sold the securities to U.S. Central by means of written and/or oral communications which included untrue statements of material fact and/or omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

200. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

201. Defendant Wachovia sold the certificates to U.S. Central in Kansas.

202. U.S. Central did not know of these untruths and omissions.

203. If U.S. Central had known about these untruths and omissions, it would not have purchased the securities from Defendant Wachovia.

204. Defendant Wachovia's sales of the certificates violated Kan. Stat. Ann. § 17-12a509(b).

205. U.S. Central and Plaintiff sustained damages as a result of Defendant Wachovia's violations of Kan. Stat. Ann. § 17-12a509(b).

WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Wachovia, awarding damages in an amount to be proven at trial, costs, and such other relief as the Court deems appropriate and just.

Jury Demand and Designation of Place of Trial

Plaintiff hereby demands a trial by jury of all issues properly triable. Pursuant to Local Rule 40.2(a), Plaintiff hereby designates Kansas City, Kansas as the place of trial of this action.

Dated: November 28, 2011

NATIONAL CREDIT UNION
ADMINISTRATION BOARD,
as Liquidating Agent of U.S. Central Federal
Credit Union Union and of Western Corporate
Federal Credit Union

By: /s/ Norman E. Siegel

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APPENDIX A

Table 1

(Securities Purchased on the Initial Offering)

CUSIP	ISSUING ENTITY	BUYER	TRADE DATE	PRICE PAID
92978GAB5	Wachovia Mortgage Loan Trust, Series 2006-ALT1	U.S. Central	30-Nov-06	$43,995,000
92978GAC3	Wachovia Mortgage Loan Trust, Series 2006-ALT1	WesCorp	30-Nov-06	$44,376,000

Table 2

(Securities Subject to Section 11 Claims Only)

CUSIP	ISSUING ENTITY	BUYER	TRADE DATE	PRICE PAID
66988YAE2	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	22-Sept-06	$15,169,000
66988YAF9	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	22-Sept-06	$63,050,000
66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	22-Sept-06	$34,300,000

Table 3
(Credit Rating System)

Moody's	S&P	Definitions	Grade Type
Aaa	AAA	**Prime (Maximum Safety)**	**INVESTMENT GRADE**
Aa1 Aa2 Aa3	AA+ AA AA-	**High Grade, High Quality**	
A1 A2 A3	A+ A A-	**Upper Medium Grade**	
Baa1 Baa2 Baa3	BBB+ BBB BBB-	**Medium Grade**	
Ba2 Ba3	BB BB-	**Non-Investment Grade, or Speculative**	**SPECULATIVE GRADE**
B1 B2 B3	B+ B B-	**Highly Speculative, or Substantial Risk**	
Caa2 Caa3	CCC+	**In Poor Standing**	
Ca	CCC CCC-	**Extremely Speculative**	
C	-	**May be in Default**	
-	D	**Default**	

Table 4
(Credit Ratings for U.S. Central's and WesCorp's RMBS Purchases)

CUSIP	ISSUER NAME	BUYER	Original Rating S&P	Original Rating MOODY'S	Downgrade Below Investment Grade S&P	Downgrade Below Investment Grade MOODY'S	Recent Rating S&P	Recent Rating MOODY'S
66988YAF9	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	AA+	Aa1	CCC 9/2/2008	Caa2 10/30/2008	D 3/18/2011	C 3/13/2009
66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	AA	Aa2	CCC 9/2/2008	Ba1 4/23/2008	D 10/22/2010	C 10/30/2008
66988YAE2	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	AAA	Aaa	B 9/2/2008	Ba1 10/30/2008	CCC 8/4/2009	Ca 3/13/2009

CUSIP	ISSUER NAME	BUYER	Original Rating S&P	Original Rating MOODY'S	Downgrade Below Investment Grade S&P	Downgrade Below Investment Grade MOODY'S	Recent Rating S&P	Recent Rating MOODY'S
92978GAB5	Wachovia Mortgage Loan Trust, Series 2006-ALT1	U.S. Central	AAA	Aaa	B 10/27/2008	Caa2 2/19/2009	CCC 2/16/2010	Caa3 11/5/2010
92978GAC3	Wachovia Mortgage Loan Trust, Series 2006-ALT1	WesCorp	AAA	Aaa	B 10/27/2008	Ba3 8/20/2008	CCC 2/16/2010	Caa3 11/5/2010

Table 5
(Delinquency and Default Rates for U.S. Central's and WesCorp's RMBS Purchases)

CUSIP	OFFERING	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	NovaStar Mortgage Funding Trust, Series 2006-5 Aggregate (P.S. dated September 22, 2006)	.95% of the mortgage loans were 30 or more days delinquent (S-23)	2.31% (Oct., p.14)	4.90% (Dec., p.14)	10.38% (Mar., p.14)	22.59% (Sept., p.14)	45.90% (Oct. 2011, p.15)
66988YAF9 66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5 Group 1 *Classes M-1 and M-2 are in Groups 1 and 2 (S-98)	.95% of the mortgage loans were 30 or more days delinquent (S-23)	1.75% (Oct., p.15)	3.58% (Dec., p.15)	6.93% (Mar., p.15)	17.98% (Sept., p.15)	42.35% (Oct. 2011, p.20)
66988YAE2 66988YAF9 66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5 Group 2 *Class A-2D in Group 2 (S-1) *Classes M-1 and M-2 are in Groups 1 and 2 (S-98)	.95% of the mortgage loans were 30 or more days delinquent (S-23)	3.19% (Oct., p.16)	6.95% (Dec., p.16)	15.75% (Mar., p.16)	29.64% (Sept., p.16)	52.70% (Oct. 2011, p.26)

CUSIP	OFFERING	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
92978GAB5 92978GAC3	Wachovia Mortgage Loan Trust, Series 2006-ALT1 (P.S. dated December 19, 2006)	Zero. (S-32)	.94% (Jan., p.14)	2.13% (Mar., p.14)	4.14% (June, p.14)	10.84% (Dec., p.14)	30.93% (Oct. 2011, p.12)

Table 6
(Originator "Originate-to-Distribute" Percentages)

Originator	OTD % 2005	OTD% 2006	OTD % 2007
Accredited Home Lenders, Inc.	100	100	100
NovaStar Mortgage, Inc.	89.3	80.0	98.5
Wachovia Mortgage Corp.	82.6	74.1	69.6

Table 7
(Purchases Subject to Tolling Under American Pipe)

CUSIP	ISSUING ENTITY	BUYER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
66988YAE2	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	9/22/06	*New Jersey Carpenters Health Fund v. NovaStar Mortgage Funding* No. 08-601563 (Sup. Ct. of the State of NY) Class Action Complaint **Filed: May 21, 2008** (Removed to No. 08-5310 (S.D.N.Y.))
66988YAF9	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	9/22/06	*New Jersey Carpenters Health Fund v. NovaStar Mortgage Funding* No. 08-601563 (Sup. Ct. of the State of NY) Class Action Complaint **Filed: May 21, 2008** (Removed to No. 08-5310 (S.D.N.Y.))

CUSIP	ISSUING ENTITY	BUYER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
66988YAG7	NovaStar Mortgage Funding Trust, Series 2006-5	U.S. Central	9/22/06	*New Jersey Carpenters Health Fund v. NovaStar Mortgage Funding* No. 08-601563 (Sup. Ct. of the State of NY) Class Action Complaint **Filed: May 21, 2008** (Removed to No. 08-5310 (S.D.N.Y.))

APPENDIX B

Figure 1
(Illustration of the Securitization Process)

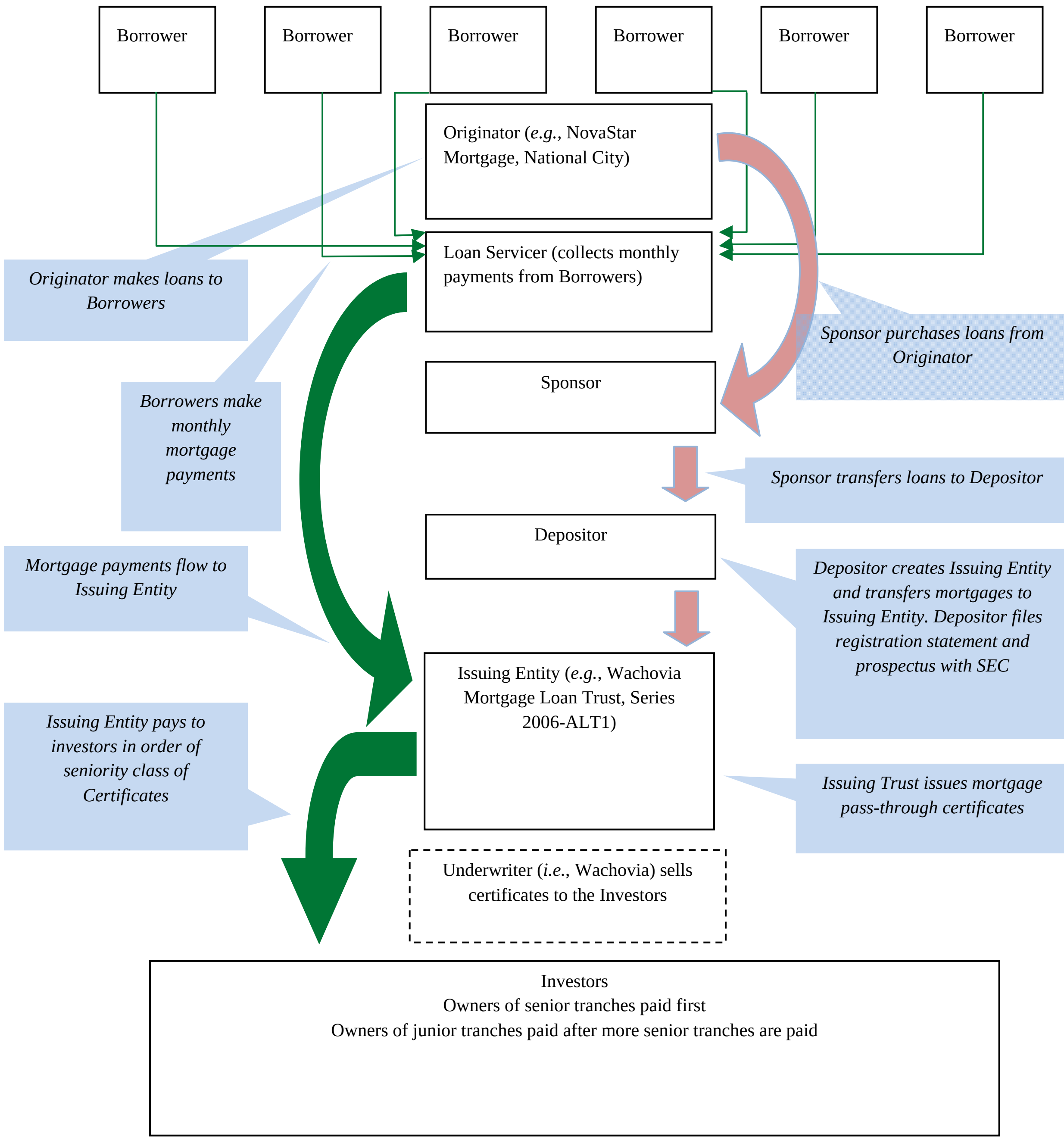
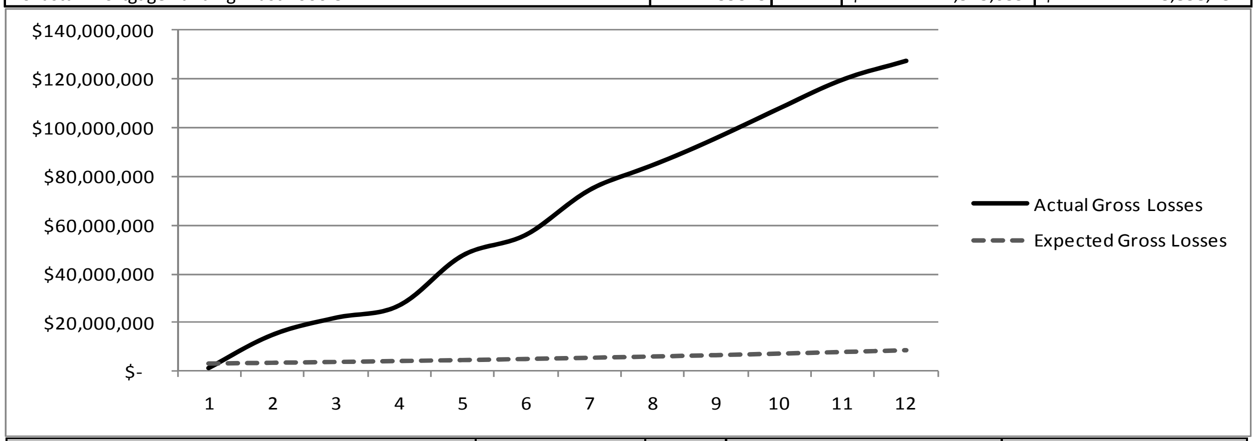


Figure 2

(Illustration of Expected Losses v. Actual Losses for U.S. Central's and WesCorp's RMBS Purchases)

Deal Name	ABSNet Deal I	Month	Actual Gross Losses	Expected Gross Losses
Novastar Mortgage Funding Trust 2006-5	39379	1	$ 1,435,238	$ 3,388,172
Novastar Mortgage Funding Trust 2006-5	39379	2	$ 15,009,169	$ 3,700,731
Novastar Mortgage Funding Trust 2006-5	39379	3	$ 22,047,992	$ 4,041,468
Novastar Mortgage Funding Trust 2006-5	39379	4	$ 27,040,822	$ 4,412,797
Novastar Mortgage Funding Trust 2006-5	39379	5	$ 47,552,372	$ 4,817,316
Novastar Mortgage Funding Trust 2006-5	39379	6	$ 56,075,866	$ 5,257,814
Novastar Mortgage Funding Trust 2006-5	39379	7	$ 74,438,517	$ 5,737,281
Novastar Mortgage Funding Trust 2006-5	39379	8	$ 84,681,723	$ 6,258,914
Novastar Mortgage Funding Trust 2006-5	39379	9	$ 95,762,561	$ 6,826,128
Novastar Mortgage Funding Trust 2006-5	39379	10	$ 108,010,395	$ 7,442,559
Novastar Mortgage Funding Trust 2006-5	39379	11	$ 119,855,905	$ 8,112,065
Novastar Mortgage Funding Trust 2006-5	39379	12	$ 127,523,639	$ 8,838,732



Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	1	$ -	$ 571,225
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	2	$ 907,000	$ 623,920
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	3	$ 3,477,778	$ 681,366
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	4	$ 3,865,958	$ 743,970
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	5	$ 4,775,290	$ 812,169
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	6	$ 8,398,870	$ 886,435
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	7	$ 8,047,724	$ 967,270
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	8	$ 8,645,036	$ 1,055,214
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	9	$ 11,762,701	$ 1,150,843
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	10	$ 17,071,099	$ 1,254,769
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	11	$ 21,346,144	$ 1,367,643
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	12	$ 23,684,214	$ 1,490,155